

**BUDGET RELATED  
POLICIES  
2016/2017**

## CONTENTS

1. LONG-TERM FINANCIAL SUSTAINABILITY POLICY	3
2. ACCOUNTING POLICY	27
3. CASH & INVESTMENT MANAGEMENT POLICY	58
4. FINANCIAL ASSET MANAGEMENT POLICY	84
5. INSURANCE MANAGEMENT POLICY	182
6. SUPPLY CHAIN MANAGEMENT POLICY	195
7. CUSTOMER CARE, CREDIT CONTROL, DEBT COLLECTION AND INDIGENT SUPPORT POLICY	275
8. TARIFF POLICY	329
9. PROPERTY RATES POLICY	353
10. ASSET MANAGEMENT POLICY	403



*“A place of excellence”*

# **DRAKENSTEIN MUNICIPALITY**

## **LONG-TERM FINANCIAL SUSTAINABILITY POLICY**

**1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## TABLE OF CONTENTS

	Page
1. INTRODUCTION .....	2
2. FINANCIAL SUSTAINABILITY AND SOUTH AFRICAN LEGISLATION.....	2
3. FINANCIAL SUSTAINABILITY – THE CONCEPT.....	5
4. FINANCIAL SUSTAINABILITY IN LOCAL GOVERNMENT.....	6
5. DEFINING FINANCIAL SUSTAINABILITY.....	7
6. SIGNALLING AND COMMUNICATING LONG-TERM FINANCIAL SUSTAINABILITY.....	8
7. LONG-TERM FINANCIAL SUSTAINABILITY RATIOS.....	12
8. ACKNOWLEDGEMENTS.....	23

## **DRAKENSTEIN MUNICIPALITY**

### **LONG-TERM FINANCIAL SUSTAINABILITY POLICY**

#### **1. INTRODUCTION**

- 1.1 Drakenstein Municipality is responsible for directly providing residents in its jurisdictional area, a wide range of public services, and access to essential utilities and community facilities. This requires Drakenstein to hold and maintain a significant base of infrastructure assets, which necessitates not only substantial initial investments, but also continued expenditure to maintain and renew assets over the course of their respective useful lives.
- 1.2 It is paramount that long-term financial and asset management planning is undertaken to ensure local governments can continue to provide the desired levels of services to residents now and into the future, within the confines of their respective financial capacities.

#### **2. FINANCIAL SUSTAINABILITY AND SOUTH AFRICAN LEGISLATION**

- 2.1 Section 26(h) of the Municipal Systems Act (MSA) determines that an Integrated Development Plan (IDP) must reflect a **financial plan**, which must include a **budget projection** for at least the **next three years**.
- 2.2 Regulation 2(3) of the Municipal Planning and Performance Management Regulations (MPPMR) determines that a financial plan reflected in a municipality's IDP must at least –
  - (a) Include the budget projection required by section 26(h) of the MSA;

- (b) Indicate the financial resources that are available for capital project developments and operational expenditure; and
  - (c) Include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, which strategy **may** address the following –
    - (i) Revenue raising strategies;
    - (ii) Asset management strategies;
    - (iii) Financial management strategies;
    - (iv) Capital financing strategies;
    - (v) Operational financing strategies; and
    - (vi) Strategies that would enhance cost-effectiveness.
- 2.3 Section 4(2)(d) of the MSA determines that the council of a municipality, within the municipality's financial and administrative capacity and having regard to practical consideration, has the duty to strive to ensure that municipal services are provided to the local community in a **financially** and environmentally **sustainable** manner.
- 2.4 **"Financially sustainable"** in terms of section 1 of the MSA, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and

external sources, included budgeted income, grants and subsidies for the service, is sufficient to cover the costs of –

- (a) The initial capital expenditure required for the service;
- (b) Operating the service; and
- (c) **Maintaining, repairing and replacing the physical assets** used in the provision of the service.

2.5 Foot note 1 to regulation 7(1) of the Municipal Budget and Reporting Regulations determines as follows: As defined in section 1(g) of the Municipal Finance Management Act, policies that affect or are affected by the annual budget of a municipality include a policy related to the **long-term financial plan**.

2.6 Notable shortcomings in South African legislation are –

- (a) Section 26(h) of the MSA that refers to an IDP with information for only the next five years (medium-term thinking);
- (b) Section 26(h) of the MSA refers to a financial plan with budget projections for only three years (medium-term thinking);
- (c) Regulation 2(3)(c) of the MPPMR refers to a financial strategy that **may** address strategies with regard to revenue raising, asset management, financial management, capital financing, operational financing and strategies that would enhance cost-effectiveness (short-term thinking);
- (d) Section 4(2)(d) of the MSA refers to **financially** and environmentally **sustainable** municipal services (long-term thinking);

- (e) Section 1 of the MSA defines **financially sustainable** *inter alia* as **maintaining, repairing** and **replacing** physical assets in the provision of municipal services (long-term thinking); and
- (f) Foot note 1 to regulation 7(1) of the MBRR refers to a **long-term financial plan** (long-term thinking).

2.7 There is no long-term financial plan template / guideline available or legislated. The same applies for financial strategies that **may** be developed. The financial plans of municipalities differ substantially from one another and there is no consistency for the reader of IDP's.

### 3. FINANCIAL SUSTAINABILITY – THE CONCEPT

3.1 The word “sustainable” has gained common usage in a variety of areas since the 1990's. It is most often used in the context of environmental management. We can easily understand, for example, that fossil fuels such as oil and coal are finite resources. Therefore, considerable effort is devoted to seeking alternative renewable energy resources, along with energy-saving practices and technologies, to try to make our energy consumption practices sustainable. In general terms we use “sustainable” to mean that we can continue our current practices.

3.2 “Financial sustainability” is a similar concept. For community members, financial sustainability is probably thought of as whether we can afford our current lifestyle: whether we can pay for rent, food and other expenses with the income we receive each year. For those of us who own homes, farms or businesses, we may think in longer terms as to whether we will be in a position to repay debts by the time we retire. This type of thinking is practical for



individuals or families where long-term planning is probably in the order of 15 to 20 years. However, most of us probably plan on a shorter basis than that.

#### **4. FINANCIAL SUSTAINABILITY IN LOCAL GOVERNMENT**

- 4.1 The concepts most people use in their personal and business lives are basically the same as those that should be applied in municipalities, but need some modification. This is because municipal councils are perpetual corporations which acquire and manage a stock of financial and physical assets (including renewing and disposing of individual items) in order to provide services for **generation after generation** of local residents and ratepayers.
- 4.2 Municipal councils provide the legal framework by which communities own infrastructure and other assets and by which they act as a collective. Much local government infrastructure has a useful life of 30, 50 or in some cases well over 100 years. While individuals involved may come and go, municipalities continues to render services perpetually.
- 4.3 This poses the question: *Can we continue the revenue and expenditure patterns of recent years while maintaining the levels of service expected by the local community?*
- 4.4 Drakenstein like other municipalities worldwide have large infrastructure maintenance and renewal backlogs and as a result our communities were enjoying infrastructure which would, and was beginning to, fall apart – and which would be left for our children to fix up.
- 4.5 Drakenstein don't want to continue with very low levels of debt, because then they would be trying to rebuild long-lasting infrastructure out of current revenue

rather than recovering the cost over the useful life of the infrastructure. In some circumstances, a deferral of infrastructure renewal and replacement is a worse ‘sin’ than borrowing to finance such renewal / replacement of infrastructure.

- 4.6 Drakenstein’s leaders, administrators and communities should not only think about the state of infrastructure and other assets we would leave to our children, but what we would leave to our grandchildren and great grandchildren. This is often referred to as ‘intergenerational equity’.
- 4.7 Another way of describing this is to say that communities were, under past stewardship, living off their assets rather than paying their way. We were on a path of wearing out vital infrastructure and putting off until the next generation the challenges of renewal.
- 4.8 The infrastructure backlogs and challenges facing Drakenstein resulted from short-term thinking that failed to seriously address the long-term nature of infrastructure and the on-going responsibilities towards the local communities. It is noted that Drakenstein had not been referring to financial indicators which could have told leadership and others how we had been performing on long-term financial sustainability issues.

## **5. DEFINING FINANCIAL SUSTAINABILITY**

- 5.1 Three essential elements with regard to services, property taxes, service charges and the impacts thereof on future generations needs to be covered in a financial sustainability definition. They are –

- (a) To ensure that the maintenance of Drakenstein’s high priority expenditure programs, both operating and capital, are at the desired levels (programme sustainability);
- (b) To ensure a reasonable degree of stability and predictability in the overall property rates and service charges burden (affordability sustainability); and
- (c) To promote a fair sharing in the distribution of Drakenstein’s resources and the attendant taxation between current and future ratepayers (intergenerational sustainability).

5.2 In another way, these elements can be seen as what Drakenstein’s community expects from Council with regard to quality services; reasonable property rates and service charges; and, sound long-term financial management.

5.3 Financial sustainability could therefore be defined as follows –

*Drakenstein’s long-term financial operating performance and financial position is sustainable where long-term planning and budgeting as well as infrastructure levels and standards are met without any substantial unplanned increases in property rates and service charges or inconvenient disruptive cuts to services.*

## **6. SIGNALLING AND COMMUNICATING LONG-TERM FINANCIAL SUSTAINABILITY**

6.1 One of the problems of the past was that there had been no common publication of data indicating the extent to which municipalities were financially sustainable.

In the absence of such data, the media and communities tended to focus on three elements –

- (a) Municipality’s sizes of our revenue, expenditure or, in particular, debt levels;
- (b) Whether municipality’s budgets are balanced (in cash terms); and
- (c) Municipality’s annual percentage increases in property rates and service charges revenue.

6.2 All of these are measured with various financial ratios benchmarking municipalities with one another. However, no long-term financial sustainability ratios are used for long-term planning and budgeting and since the development status and infrastructure backlogs differs substantially from one municipality to another municipality; the focus should rather be on developing long-term financial viability ratios instead of comparing one municipality with another through short-term financial ratios.

6.3 Drakenstein communicates or signal important information to their local communities in a variety of ways. These include information provided in reports for Council meetings; issues debated at Council meetings; annual reports, annual business plans and long-term financial plans; media releases and statements by the Executive Mayor / Municipal Manager; and, community newsletters, forums, meetings and information on websites.

6.4 When engaging with a community, written analysis around an annual business plan (IDP) and a long-term financial plan is particularly important. It should facilitate community consultation on the likely changes to be made in service delivery, infrastructure spending and imposition of property rates and service charges, to provide for or maintain financial sustainability in the longer term. In

addition, the analysis should make a conscious attempt to ensure a linkage with the objectives and goals of the Council. This approach also should result in a clear understanding by the community of the Council’s proposed direction.

- 6.5 Councils using these communication mechanisms had rarely highlighted key financial sustainability measures. As a result, current needs and demands of communities often were given priority over the Council’s long-term sustainability.
- 6.6. Drakenstein’s long-term financial sustainability needs to be assessed using a standard set of key financial indicators. The following three key financial indicators should be communicated with Drakenstein’s local communities –
- (a) An **Operating Surplus Ratio** (the percentage by which the major controllable revenue source varies from operating expenses) that speaks to the Statement of Financial Performance;
  - (b) A **Net Financial Liabilities Ratio** (the significance of the net amount owed compared with operating revenue) that speaks to the Statement of Financial Position; and
  - (c) An **Asset Sustainability Ratio** (the extent to which assets are being replaced, compared with what is needed to cost-effectively maintain service levels) that speaks to the condition of infrastructure assets within the Fixed Assets Register.
- 6.7 Of the three, the most important is the **operating surplus ratio** which indicates whether Drakenstein Municipality is living within its means. It indicates the extent to which Drakenstein major revenue sources is more, or less than its operating expenses, including non-cash items such as depreciation of assets.

A Council which has an operating deficit in one year **should have a plan** to achieve a breakeven position in future years.

6.8 Notwithstanding the usefulness of financial indicators when communicating with ratepayers, the most critical measure of the financial sustainability of a municipality is its annual operating result (i.e. the extent to which operating revenue is sufficient or insufficient to fund the cost of services). Any municipality that incurs on-going operating deficits should be quite clear about the strategic implications of this on its future capabilities to sustain current service levels. It means that –

- (a) The rates and service charges that the community are paying are insufficient to cover the costs of providing existing levels of service;
- (b) The municipality effectively is running down its existing net assets; and
- (c) In future, the Municipal Council must inevitably reduce service levels, improve efficiency and / or increase operating revenue with higher property rates and service charges – and the longer it delays remedial action, the more severe the consequences are likely to be.

6.9 Drakenstein needs to ensure that the range and standard of services to their communities is determined having regard to Drakenstein’s long-term financial sustainability. This requires a particular focus on cost-effective service provision and the maintenance and renewal of assets that Drakenstein are responsible for. Drakenstein need to give much greater profile in their mainstream communications to their targets for, and performance against, sustainability indicators. This information needs to feature more prominently in our primary communication tools – including information provided formally to Council meetings, in annual business plans and in work with the media.

- 6.10 Drakenstein needs to remind ourselves that in local government the Municipal Council and senior management are making decisions as a perpetual organisation for current and future generations; that the majority of our business, financial and management revolves around community infrastructure; that we have significant infrastructure backlog issues which demand greater property rates and service charges contributions and / or borrowings and possible reductions in “**lower priority**” service areas if we are to get on top of them; and, this may mean we need to say “**no**” to other governments (unfunded mandates) or our communities in response to demands for involvement in issues beyond our current resources and constitutional responsibilities.
- 6.11 The above should be readily apparent to our communities and should be highlighted regularly, along with our plan to deal with these issues and how we are progressing.
- 6.12 Drakenstein acknowledges that municipalities are all different so the appropriate property rates and service charges revenue, the appropriate expenditure on infrastructure and the appropriate level of indebtedness will look different in an urban developed municipality, compared with a rural municipality, compared with a district municipality and compared with a fringe metropolitan high growth and economies of scale that cannot be competed with.

## **7. LONG-TERM FINANCIAL SUSTAINABILITY RATIOS**

### **7.1 Indicator 1: Operating Surplus Ratio**

- 7.1.1 An operating surplus (or deficit) arises when operating revenue exceeds (or is less than) operating expenses for a period (usually a year). Just like any

household or other organisation, Drakenstein's long-term financial sustainability is dependent upon ensuring that, on average over time, its expenses are less than associated revenues. In essence this requires current day citizens to fully meet the cost of services provided for them by Drakenstein Municipality.

- 7.1.2 If Drakenstein is not generating an operating surplus in most periods, then it is unlikely to be operating in a financial sustainable way. It means that the cost of services provided to the community exceeds the revenue generated. The change of an operating deficit into an operating surplus can occur only by ensuring in future that revenues are increased and / or that expenses are reduced (at least relative to revenue increases, either by reducing service levels or improving productivity).
- 7.1.3 Drakenstein was operating with a significant deficit over several years and its strategic management and long-term financial plans did not provide clear proposals for this to be turned around and it would be inevitable that Drakenstein would face major financial shocks in future. The Municipality effectively would be in the same position as an individual or family living beyond their means. Sooner or later they would be caught by the consequences. For Drakenstein the problem would likely come to a head when existing major assets failed. Drakenstein would then need to choose between large property rates and service charges increases or not replacing assets thereby effectively lowering its standards of service to its community.
- 7.1.4 The **operating surplus ratio** is the operating surplus / (deficit) expressed as a percentage of operating revenue (capital grants excluded). A positive ratio indicates the percentage of total accumulated reserves available to help fund future capital expenditure. If the relevant amount is not required for this purpose in a particular year, it can be held for future capital expenditure needs by either increasing financial assets or preferably, where possible, reducing debt



(external borrowings) in the meantime. A negative ratio indicates the percentage increase in property rates and service charges that are required to achieve a break-even operating result.

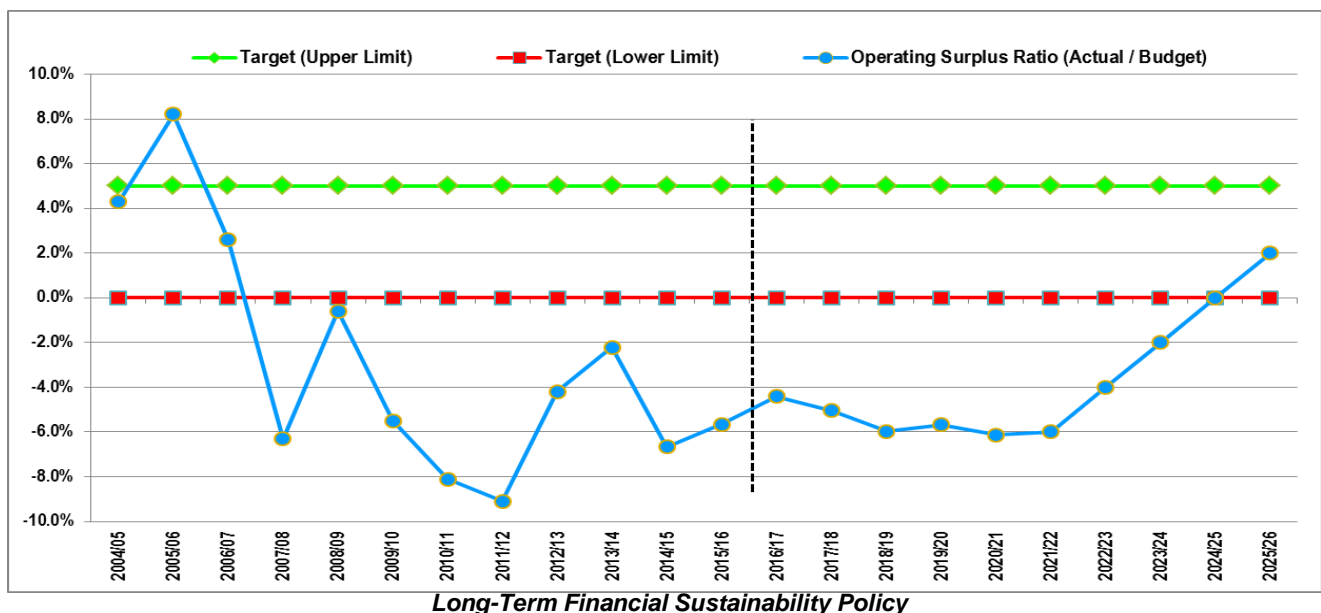
- 7.1.5 This indicator is by far the most important financial indicator for Drakenstein or any municipality. If a municipality consistently achieves a modest positive operating surplus ratio, and has soundly based projections showing that it can continue to do so in future, having regard to asset management and its community's service level needs, then it is financially sustainable. Favourable trend results measured against the other financial indicators described below will assist, but not in themselves ensure, that Drakenstein operates sustainably.
- 7.1.6 The suggested long-term target range for Indicator 1 (**Operating Surplus Ratio**) is to achieve, on average, an operating surplus ratio of between 0% and 5%. The setting of a lower target would be hard to justify. A negative operating surplus target (i.e. a deficit) might be appropriate in the short-term if a municipality's community was widely and significantly adversely affected by economic conditions. Similarly an annually diminishing negative operating surplus ratio target might be an appropriate “roadmap” to progressively achieve financial sustainability for a municipality that had previously incurred large operating deficits. This was the case with Drakenstein Municipality.
- 7.1.7 As a long-term target, however, a negative operating surplus ratio could be justified only if Drakenstein and its community had worked out, and accepted, where this course would lead them. That is, that Drakenstein's stock of assets, net of liabilities, would progressively decline in value and that Drakenstein Municipality would be unable to fund required rehabilitation or replacement of assets, in future, without substantial rises in property rates and service charges. This would not normally be acceptable but may be, for example, in cases where there has been very significant demographic or service preference change over

time and assets are not intended to be replaced at the end of their economic useful life.

- 7.1.8 Should Drakenstein wish to target a very large operating surplus ratio it needs to be equally clear about, and articulate, its reasons for doing so. This course of action would mean that the Municipal Council would be setting property rates and service charges at levels well in excess of its operating expenses. This would have negative implications for its community in terms of intergenerational equity. There may nevertheless be compelling reasons for such a strategy. For example Drakenstein may have run significant operating deficits in the past and have impending major asset replacement needs in excess of a prudent borrowing level. Drakenstein might wish to build up financial assets or reduce existing liabilities to help it, in the future, finance this impending need.
- 7.1.9 The setting of an appropriate target range for the operating surplus ratio is the most important financial decision that a Municipal Council must make. It is essential that the elected councillors and senior management involved in making this decision are provided with sufficient information and training to fully understand all relevant issues and implications.
- 7.1.10 The Operational Surplus Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

OPERATING SURPLUS RATIO		
Operating Surplus Ratio (expressed as a percentage) is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.		
Formula	$\frac{\text{Operating Result or Net Result (excluding Capital Items)}}{\text{Total Operating Revenue (excluding Capital Items)}}$	
Target	Between 0% and 5% per annum (on average over the long-term)	
Targets		What does this mean?
Higher than target	> 5% on average over the long-term	Whilst expecting to generate substantial revenues can assist in off-setting past or future operating deficits, and fund proposed capital expenditure and/or debt repayments, the low level of operating expenses compared to operating revenues could also indicate that a local government is providing levels of service below that expected by rate payers
Within target range	> 0% and < 5% on average over the long-term	A local government is expecting to generate healthy levels of revenues that can be used to offset past or future operating deficits or to fund proposed capital expenditure and/or debt repayments, and is less likely to compromise the levels of service expected by ratepayers.
Below target range (negative ratio)	< 0% on average over the long-term	A local government is expecting to not be able to generate sufficient revenues that can cover operating expenses and offset past or future operating deficits or act as a funding source for proposed capital expenditure and/or debt repayments. The percentage indicates the percentage increase in operating revenues needed to achieve a break-even position.

7.1.11 The current status of Drakenstein's **Operating Surplus Ratio** as reflected in the Long-Term Financial Plan in Chapter 5 of the 2016/2021 Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is moving to long-term financial sustainability.



## 7.2 Indicator 2: Net Financial Liabilities Ratio

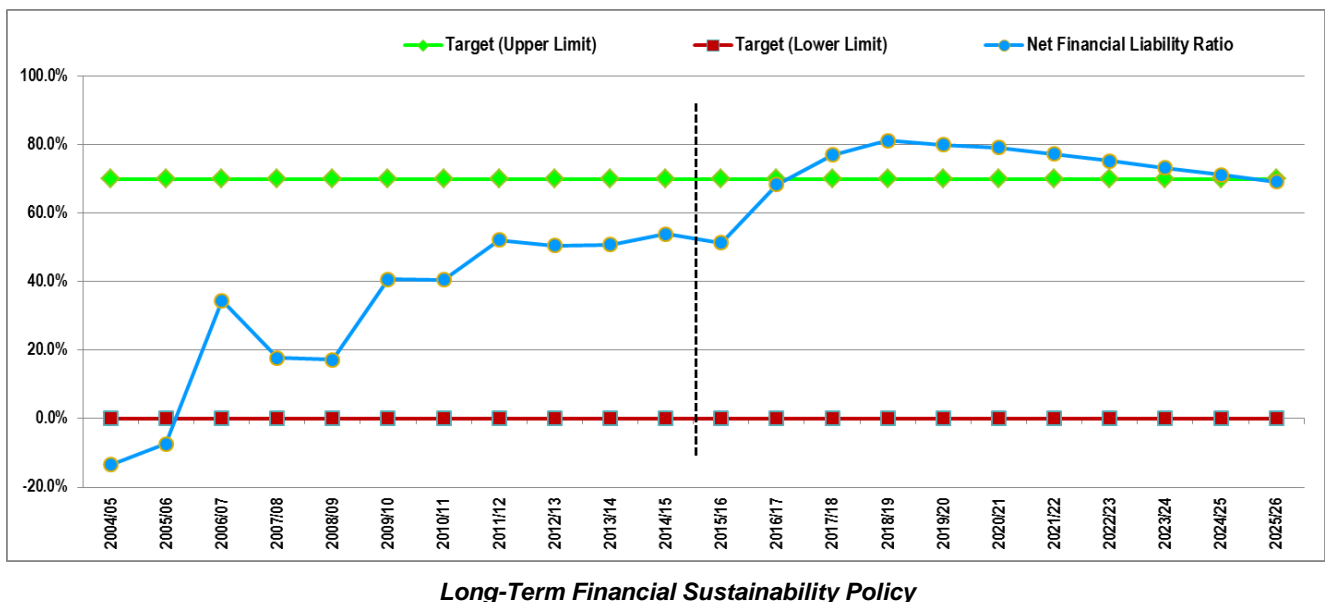
- 7.2.1 Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses).
- 7.2.2 Often too much focus is placed on the level of a municipality’s borrowings. This number has little meaning without also considering the municipality’s available financial assets and other liabilities. It would make no sense for individuals, in assessing their financial positions, to look at one pile of bills and ignore others and disregard how much money they have in the bank. The same holds true for municipalities.
- 7.2.3 Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account a municipality’s cash and investments.
- 7.2.4 Before considering an increase in its indebtedness, a municipal Council needs to recognise that interest associated with borrowings will impact negatively on its operating result. However municipalities with significant asset rehabilitation and replacement backlogs may find that their financial sustainability is improved if they raise borrowings to finance the works needed to address these backlogs i.e. if the operational savings achieved from addressing these backlogs exceed the additional interest costs resulting from the borrowings raised, financial sustainability would be improved.
- 7.2.5 The **net financial liabilities ratio** is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year. If the ratio falls, over time, this indicates that the Municipality’s capacity to meet its financial obligations from operating revenue is strengthening.

- 7.2.6 An increase in the net financial liabilities ratio will sometimes mean that a municipality is incurring higher operating expenses (e.g. as a result of additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the Municipality's overall operating result. Nevertheless a municipality with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through acquisition of additional assets without detracting from its financial sustainability.
- 7.2.7 There is no optimal single number or even narrow range for this indicator. What is important is that a Municipal Council understands and is comfortable with its ratio and that it has been determined based on future community needs and long-term financial sustainability.
- 7.2.8 There is no right or wrong target range for the net financial liabilities ratio. Different Municipality's (or the same Municipality at different points of time in its long-term financial plan) could appropriately have very different target ranges and each could be equally responsible and financially sustainable, depending upon their circumstances. A target range should be set by a Municipal Council having regard to the target for its operating surplus ratio and the needs that are identified in its long-term financial plan and its infrastructure and asset management plan.
- 7.2.9 The target ratio should normally be (especially over the medium to longer-term) greater than zero. If not, that is likely to imply that a Municipal Council places a higher priority on accumulating financial assets than applying funds generated from ratepayers to the provision of services including infrastructure renewal.

- 7.2.10 It is suggested that in normal circumstances the target ceiling for a net financial liabilities ratio be generally no more than 100% of operating revenue to ensure the ratio remains within conventionally prudent limits. However, a well-managed municipality's committed to sound financial strategies (particularly during a time of significant development) could comfortably allow a higher net financial liabilities ratio. Also, while any target ratio should effectively provide a guide to influence revenue and expenditure decisions and to constrain borrowing, it would make sense to borrow to fund the replacement of an asset at the end of its “economic useful life” if funds were not available from other sources (and assuming that existing service levels were considered affordable).
- 7.2.11 If a municipality has not yet fully researched its likely medium to longer-term asset rehabilitation and replacement needs, it may be appropriate to set a more modest ceiling until this information is available and its funding implications assessed.
- 7.2.12 The breadth of the suggested range highlights the considerable discretion associated with sound management of net financial liabilities. What is important is that a Municipal Council understands and is comfortable with its ratio and that it has been determined based on future community needs and long-term financial sustainability.
- 7.2.13 In practice, it is recommended that a Municipal Council establish a much tighter range for this indicator than the very broad range of 0% to 100% suggested above. For example, in any one year of its long-term financial plan or in its annual budget, a Council might establish a target range of say 50% to 60%.
- 7.2.14 The Net Financial Liability Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

NET FINANCIAL LIABILITIES RATIO		
Net Financial Liabilities Ratio (expressed as a percentage) is an indicator of the extent to which the net financial liabilities of a local government can be serviced by its operating revenues.		
Formula	$\frac{\text{Total liabilities} - \text{Current Assets}}{\text{Total Operating Revenue (excluding Capital Items)}}$	
Target	> 0% but not more than 100% of total operating revenue	
Targets		What does this mean?
Higher than target	> 70% on average over the long-term	A local government has total financial liabilities that exceed current assets above recommended levels. This means that the local government likely has limited capacity to increase its loan borrowings and may become over-burdened with debt.
Within target range	> 0% and < 70% on average over the long-term	Whilst this means net financial liabilities exceed current assets and must be serviced using available operating revenues, the local government remains within recommended levels for sustainability.
Below target range (negative ratio)	< 0% on average over the long-term	A local government has current assets that exceed total liabilities and appears to have the capacity to increase its loan borrowings if required.

7.2.15 The current status of Drakenstein’s **Net Financial Sustainability Ratio** as reflected in the Long-Term Financial Plan in Chapter 5 of the 2016/2021 Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is operating within long-term financial sustainability targets.



### **7.3 Indicator 3: Asset Sustainability Ratio**

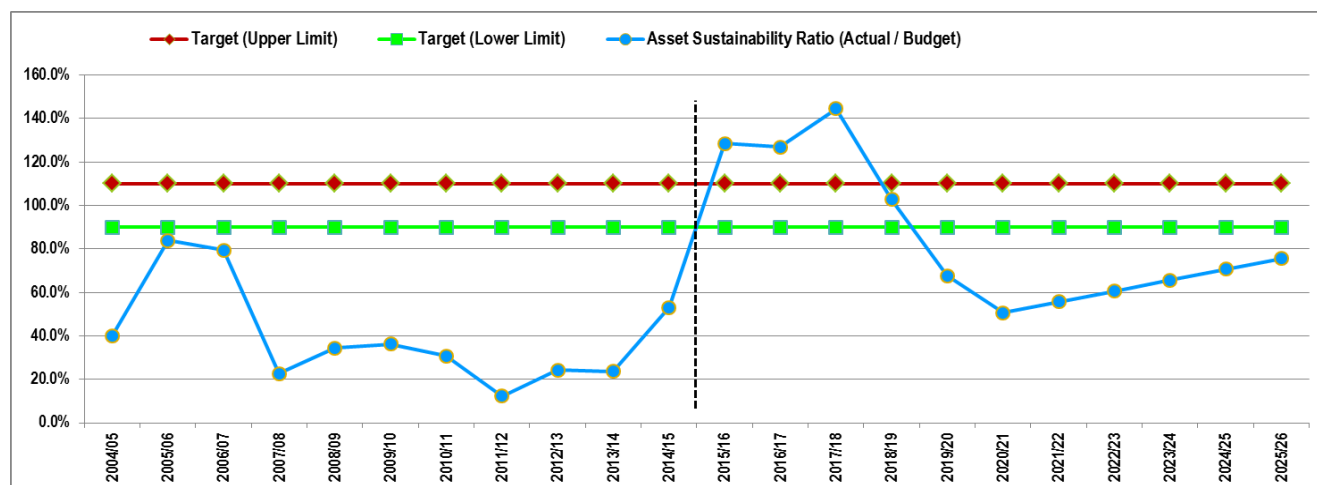
- 7.3.1 This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Municipality’s infrastructure and asset management plan (IAMP).
- 7.3.2 If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed in the IAMP, then a municipality is ensuring the value of its existing stock of physical assets is maintained. Any material under spending on renewal and replacement over the medium term is likely to adversely impact on the achievement of preferred, affordable service levels and could potentially progressively undermine a municipality’s financial sustainability. For example, additional maintenance costs associated with assets that have exceeded their economic useful life might be higher than costs that would be associated with renewal or replacement. Eventually a Municipal Council will be confronted with failed assets, and potentially significant renewal and replacement expenditure needs that cannot be accommodated without sudden large property rates and service charges increases.
- 7.3.3 Achievement of the suggested target would mean that a Municipal Council was reasonably optimising the timing of capital outlays on the renewal / replacement of assets. Failure to achieve the target would most likely mean that a Municipal Council was not optimising its financial sustainability unless it had determined its asset renewal / replacement outlays for the period on more accurate and up-to-date technical data than on which the IAMP was based.



7.3.4 The Net Financial Liability Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

ASSET SUSTAINABILITY RATIO		
Asset Sustainability Ratio (expressed as a percentage) is an indicator of the extent to which the infrastructure assets managed by a local government are being replaced as they reach the end of their useful lives.		
Formula	$\frac{\text{Capital Expenditure on Replacement of Assets (Renewals)}}{\text{Depreciation Expenditure}}$	
Target	> 90% but less than 110% of the level proposed in the Infrastructure and Asset Management Plan (I&AMP)	
Targets		What does this mean?
Higher than target	> 110% on average over the long-term	A local government is likely to be over-sufficiently maintaining, replacing or renewing existing infrastructure assets before they reach the end of their useful life.
Within target range	> 90% and < 110% on average over the long-term	A local government is likely to be sufficiently maintaining, replacing or renewing existing infrastructure assets as they reach the end of their useful life.
Below target range (negative ratio)	< 90% on average over the long-term	A local government is likely to not be sufficiently maintaining, replacing or renewing existing infrastructure assets as they are being depreciated, which may create "renewals backlogs", resulting in a reduction in service levels and/or useful lives previously expected. This will likely create a burden on future ratepayers, who will either incur financial costs to restore the asset or a convenience cost from not being able to utilise the asset (e.g. road closures due to excessive pot holes).

7.3.5 The current status of Drakenstein's **Asset Sustainability Ratio** as reflected in the Long-Term Financial Plan in Chapter 5 of the 2016/2021 Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is operating below long-term financial sustainability target but is projecting to move in the right direction.



## **8. ACKNOWLEDGEMENTS**

- 8.1 Drakenstein Municipality acknowledges the work done by the South Australia Local Government Association and the contents of Information Paper 1: Financial Sustainability (Revised January 2012) and Information Paper 9: Financial Indicators (Revised February 2012).
-



*“A place of excellence”*

# **DRAKENSTEIN MUNICIPALITY**

## **ACCOUNTING POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## DRAKENSTEIN MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

#### 1. BASIS OF PRESENTATION

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standards of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with GRAP 3 as read with Directive 5. Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the note on changes in accounting policies

These standards are summarised as follows:

Reference	Topic
GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investment in Associates
GRAP 8	Investment in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information in Financial Statements

GRAP 25	Employee Benefits - issued December 2009
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfers between entities under common control
GRAP 106	Transfers between entities not under common control
GRAP 107	Mergers
IFRS 4	Insurance contracts
IFRS 6	Exploration for and evaluation of mineral resources
IAS 12	Income taxes
IGRAP 1	Applying the probable test on initial recognition of revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a lease
IGRAP 4	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs
IFRIC 12	Service concession arrangements
SIC 25	Income taxes – Changes in the tax status of an enterprise or its shareholders
SIC 29	Service concession arrangements - disclosures
Directive 1	Repeal of existing transitional provisions in, and consequential amendments to, standards of GRAP
Directive 3	Transitional provisions for high capacity municipalities
Directive 5	Determine the GRAP reporting framework
Directive 7	The Application of Deemed Cost
Directive 11	Changes in the Measurement Bases Following the Initial Adoption of the Standards of GRAP
ASB Guide 1	Guideline on accounting for public private partnerships

The Cash Flow Statement is prepared using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards have been developed in accordance with GRAP 3. Where required, accounting policies were developed for standards of GRAP that have been issued by the Accounting Standards Board, but for which an effective date have not yet been determined by the Minister of Finance

## 2. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards of GRAP and interpretations of the standards of GRAP have been issued but are not yet effective and have not been early adopted by the municipality:

Reference	Topic
GRAP 18	Segment Reporting - issued March 2005
GRAP 20	Related Party Disclosures (Revised)
GRAP 32	Service Concession Arrangement Grantor
GRAP 108	Statutory Receivables
IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board or, International Financial Reporting Standards. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality has early adopted the amendments to the following standards as well as the new standards effective for periods starting after 1 July 2015:

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 13	Leases
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 31	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfers between entities under common control
GRAP 106	Transfers between entities not under common control
GRAP 107	Mergers

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

### 3. CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

- **Operating lease commitments – Municipality as lessor**  
Municipality has entered into commercial property leases on its investment property portfolio. The Municipality has determined that it retains all the significant risks and rewards of ownership of these properties, and so accounts for them as operating leases.
- **Pension and other post-employment benefits**  
The cost of defined benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.
- **Classification of financial assets and liabilities**  
The classification of financial assets and liabilities, into categories, is based on judgement by management. The Accounting Policy on Financial Instruments describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

- **Impairment of financial assets**  
The Accounting Policy on Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of service debtors (receivables from exchange and non-exchange transactions) is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

The calculation in respect of the impairment of fine receivables (receivables from non-exchange transactions) is based on an assessment of the past payment history of fines per category.

- **Review of useful lives of property, plant and equipment and intangible assets**

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

- **Impairment of property plant and equipment, intangible assets, heritage assets and inventory**

The Accounting Policies on Impairment of Cash and Non-cash generating assets as well as Inventory describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to the impairment of Property, Plant and Equipment, Intangible Assets and Heritage Assets and the write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets.

- **Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions, and when measuring contingent liabilities, as set out in the note on Provisions. Provisions are discounted where the effect of discounting is material.

- **Revenue recognition**

The Accounting Policies on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. In particular: in regards to revenue from exchange revenue - when goods are sold, whether the municipality had transferred to the buyer the significant risks and rewards of ownership of the goods; and, when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. In regards to revenue from non-exchange transactions - significant estimations were made to the initial recognition and measurement of revenue on fines, on the estimated reductions on initial recognition and measurement. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.



- **Budget Information**

Management assumes deviations between budget and actual amounts to be material when a deviation of more than 10% exists. All material differences are explained in the notes to the annual financial statements

#### **4. PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand and are rounded off to the nearest Rand.

#### **5. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

#### **6. OFFSETTING**

Financial assets and liabilities are offset and the net amount reported on the Statement of Financial Position when there is a legally enforceable right to set off the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **7. HOUSING DEVELOPMENT FUND**

The Housing Development Fund was established in terms of the Housing Act (Act No. 107 of 1997).

##### **7.1 Housing Development Fund**

Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, required that the Municipality maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4)(d)(ii)(aa), read with, inter alia, Section 16(2), that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account, and be utilised by the Municipality for housing development in accordance with the National Housing Policy.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the National Minister of Human Settlements.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

## **7.2 Un-realised Housing Proceeds**

In order to comply with Section 14(4)(d)(i) and (ii) of the Housing Act, (Act 107 of 1997) where all net proceeds need to be paid into the Housing Development Fund, it was necessary to create a holding account which represents the un-realized funds due by long-term housing selling schemes and sponsored loan debtors. This account is reduced when debtors are billed for their payment.

## **8. INTERNAL RESERVES AND REVALUATION RESERVE**

### **8.1 Insurance Reserve**

A general Insurance Reserve has been established and, subject to re-insurance where deemed necessary, it covers claims not covered by external insurance. Premiums are charged to the respective services taking into account claims history and replacement value of the insured assets. Insurance premiums paid to external insurers are regarded as an expense and are shown as such in the Statement of Financial Performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the Statement of Changes in Net Assets.

The cash in the municipal bank or investment account, as per cash and cash equivalents in the Statement of Financial Position, is ring-fenced and can only be utilised to finance items of property, plant and equipment.

### **8.2 Revaluation Reserve**

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as re-valued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on re-valued amounts are credited or charged to the Statement of Financial Performance.

## **9. PROVISIONS**

Provisions are recognized when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of

exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

### **9.1 Environmental rehabilitation provisions**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

## **10. PROPERTY, PLANT AND EQUIPMENT**

### **10.1 Initial recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

## **10.2 Subsequent measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and buildings, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers every four years to coincide with the implementation of the general valuation such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation."

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

## **10.3 Depreciation**

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated using the straight line method, to allocate their cost or revalued amounts less their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets' future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

The estimated useful life, residual values and depreciation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Asset class	Useful lives as applied in the AR (years)
<b>Infrastructure</b>	
Roads and storm water	5-100
Electricity	5-75
Water	5-100
Sewerage	5-100
Solid Waste	5-100
<b>Buildings, structures and facilities</b>	
Buildings	50
Recreational and sports facilities	5-100
Parks, gardens and cemeteries	5-100
Housing assets	50
<b>Other assets</b>	
Transport Assets	5-20
Computer and other office equipment	3-10
Furniture & fittings	5-10
Machinery and equipment	5-10

The useful lives, residual values and depreciation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

#### **10.4 De-recognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

### **11. INTANGIBLE ASSETS**

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an

Intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

Amortization is calculated on cost, using the straight-line method, over the useful lives of the assets, which is estimated to be between 3 to 10 years upon initial recognition. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Intangible assets are annually tested for impairment and the estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **12. INVESTMENT PROPERTIES**

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.
- Land held for a currently undetermined future use.
- A building owned (or held by under a finance lease) and leased out under one or more operating leases.
- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held.
- A building that is vacant but is held to be leased out under one or more operating leases.
- Property that is being constructed or developed for future use as investment property;

Investment property is subsequently measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers on reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

If the Municipality determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value to be reliably measurable when construction is completed, it measures that investment property at cost until the fair value can be reliably determined or construction has been completed.

Where the Municipality has determined that the fair value of an investment property (other than investment property under construction) is not determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy for property, plant and equipment).

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **13. HERITAGE ASSETS**

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

The Municipality classifies assets as heritage assets where the significance as a heritage asset can be determined. In regards to land and buildings all graded sites are classified as Heritage Assets. Furthermore land with a natural significance is not componentised but seen as a single Heritage asset due to all parts contributing together to make up its significance.

GRAP 103 requires that land and buildings that qualify as Heritage assets, but of which a significant portion of that land and buildings is held for use in the production or supply of goods or services or for administrative purposes, should be recognised as property, plant and equipment, rather than heritage assets.

#### **13.1 Initial recognition**

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

### **13.2 Subsequent measurement**

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets (excluding Heritage assets which are land and buildings) are measured at cost less accumulated impairment losses. Heritage assets are not depreciated.

Subsequent to initial recognition, land and buildings which qualify as Heritage Assets are carried at a revalued amount based on municipal valuations less subsequent accumulated impairment losses. Revaluations are performed by external independent valuers every four years to coincide with the implementation of the general valuation such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date.

### **13.3 De-recognition of heritage assets**

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of heritage assets is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

### **13.4 Transitional provisions**

The municipality utilised the transitional provisions under Directive 3, allowing 3 year for the measurement of heritage assets, which ended on 30 June 2015. In accordance with Directive 3, any adjustments to measurement of Heritage assets has been accounted for retrospectively.

## **14. INVENTORIES**

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for plants which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

Cost of inventories comprises all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.



Redundant and slow moving inventories are identified and written down to their estimated net realisable values. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

#### **14.1 Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

#### **14.2 Housing inventory**

Housing inventory is BNG (Building New Ground) houses still in process of construction, or completed and not yet transferred. These houses are entirely funded by the National Department of Human Settlements, through the Western Cape Department of Human Settlements, but the Municipality is regarded as a principal where it controls the construction process as per the current interpretation of Agent and Principal transactions in terms of GRAP and therefore recognises these costs as inventory up to the point of transfer to the allocated beneficiary where after the cost is expensed through the Statement of Financial Performance. Housing inventory is measured at the lower of cost and current replacement cost as they will be distributed through a non-exchange transaction.

### **15. DISCONTINUED OPERATIONS**

#### **15.1 Initial recognition**

A discontinued operation refers to the disposal of a significant operating activity within the Municipality.

#### **15.2 Subsequent measurement**

Disposal groups were measured at the lower of their previous carrying amount and fair value less costs to sell in the previous reporting period. Subsequently they were not depreciated (or amortised) while being held as a disposal group.

Interest and other expenses attributable to the liabilities of the disposal group classified as held for sale were recognised in surplus or deficit.

The gain or loss on the disposal of the discontinued operation is presented separately from continuing operations on the face of the Statement of Financial Performance.

During the 2013/14 year, the Municipality disposed of its disposal group previously held and early adopted the amendments to GRAP 100 – Discontinued Operations. The amendments to GRAP 100 are applied prospectively in accordance with the Standard.

## **16. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND HERITAGE ASSETS**

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

### **16.1 Impairment of cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

## **16.2 Impairment of non-cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

## 17. EMPLOYEE BENEFITS

The municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

### 17.1 Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

### 17.2 Post-employment benefits: Defined contribution plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

### 17.3 Post-employment benefits: Defined benefit plans

A **defined benefit plan** is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

#### 17.3.1 *Post-retirement Health Care Benefits:*

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

### **17.3.2 Ex-gratia Pension Benefits:**

The Municipality provides pension and retirement gratuity benefits to certain employees who were in the employment of the former Paarl and Wellington Municipalities (now incorporated into the Drakenstein Municipality) at 31 December 1994 (Paarl) and 31 March 1995 (Wellington) and still in the employment of Drakenstein Municipality at date of normal retirement, medical disability, retrenchment or death. The gratuity is calculated on the salary benefits during 1994/1995.

## **17.4 Long-service allowance**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

## **17.5 National- and Provincially administered defined benefit plans**

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year it becomes payable. These defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

The municipality does not apply defined benefit accounting to the defined benefit funds to which it is a member, where these funds are classified as multi-employer plans in terms of GRAP 25, as sufficient information is not available to apply the principles involved. As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds.

Salaried personnel are members of the Cape Joint Pension and Cape Joint Retirement fund established in terms of the Local Authorities Pension Fund Ordinance, 1969 (Ordinance 23 of 1969), and the provisions of the Pension Fund Act, 1956 (Act 24 of 1956), the SAMWU National Provident Fund and the National Fund for Municipal Workers. Councillors belong to the Municipal Councillors Pension Fund.

## **17.6 Leave pay**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

## **17.7 Provision for bonus**

The municipality recognises the expected cost of bonuses as a provision only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

## **18. LEASES**

### **18.1 Lease classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

### **18.2 The Municipality as lessee**

Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Obligations. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on the straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **18.3 The Municipality as lessor**

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

## **19. BORROWINGS**

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable, are accounted for on an accrual basis. Borrowings are initially recognised at fair value, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

Borrowing costs are recognised as an expense in the Statement of Financial Performance in the period incurred.

## 20. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities*.

A financial instrument is recognised if the municipality becomes a party to the contractual provisions of the instrument.

### 20.1 Classification of financial instruments

#### 20.1.1 Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

*Financial asset at amortised cost* being a non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

*Financial assets measured at fair value* being financial assets that meet either of the following conditions:

- (a) Derivatives;
- (b) Combined instruments that are designated at fair value;
- (c) Instruments held for trading;
- (d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

*Financial assets measured at cost* being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Finance Lease Receivables	Financial assets at amortised cost
Long-term Receivables	Financial assets at amortised cost
Current portion of Long-term Receivables	Financial assets at amortised cost
Consumer Debtors	Financial assets at amortised cost
Other Debtors	Financial assets at amortised cost
Short-term Investment Deposits – Call	Financial assets at amortised cost
Bank Balances and Cash	Financial assets at amortised cost
Investments in stock – ESKOM	Financial assets at fair value

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets at amortised cost.

### **20.1.2 Financial Liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of Financial Liabilities and the classification determining how they are measured exist:

- (i) Financial liabilities measured at fair value; or
- (ii) Financial liabilities measured at amortised cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liabilities	Classification in terms of GRAP 104
Long term Liabilities	Financial liability at amortised cost
Other Creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost
Short-term Loans	Financial liability at amortised cost
Current portion of Long-Term Liabilities	Financial liability at amortised cost

Financial liabilities that are measured at fair value that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities should be classified as financial liabilities at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

## **20.2 Initial and subsequent measurement**

### **20.2.1 Financial assets:**

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as financial asset at amortised cost.

Financial Assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses



recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

### **20.2.2 Financial liabilities:**

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities classified at amortised cost (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

## **20.3 Impairment of financial assets**

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Trade receivables encompass long term debtors, consumer debtors and other debtors. A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 104, the assessment for impairment needs to be made for each individual financial asset separately or for groups of financial assets with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

### **20.3.1 Consumer debtors**

Consumer debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

### **20.3.2 Other debtors**

Other Debtors are reviewed individually considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

### **20.3.3 Long term debtors**

- **Housing Loans**

The loans in this group are assessed by reviewing their payment histories and ratios. Provision for impairment is made accordingly.

- **Other Long Term Debtors**

No provision for impairment is made for Other Long term Debtors, because it is envisaged that these debts will be fully recovered.

Other financial assets at amortised cost are assessed individually for impairment.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **20.4 De-recognition of financial assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### **20.5 De-recognition of financial liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

## **21. REVENUE RECOGNITION**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not

considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

## **21.1 Revenue from exchange transactions**

### ***21.1.1 Service charges***

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

### ***21.1.2 Pre-paid electricity***

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

### ***21.1.3 Interest earned and rentals received***

Interest and rentals are recognised on a time proportion basis that takes into account the effective yield on the investment. Interest may be transferred from the Accumulated Surplus to the Housing Development Fund or the Insurance Reserve.

Interest earned on the following investments is not recognized in the Statement of Financial Performance:-

- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

#### **21.1.4 Dividends**

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

#### **21.1.5 Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### **21.1.6 Income from agency services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement. Where the Municipality is regarded as an agent and the revenue and expenditure in terms of these transactions are set-off.

#### **21.1.7 Housing rental and instalments**

Finance income from the sale of housing by way of instalment sale agreements or finance leases is recognised on a time proportion basis.

#### **21.1.8 Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **21.2 Revenue from non-exchange transactions**

#### **21.2.1 Rates and taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate

tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

### **21.2.2 Fines**

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

### **21.2.3 Donations and contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired in non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

### **21.2.4 Government grants and receipts**

- **Unconditional grants**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

- **Conditional grants and receipts**

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

- **Interest earned on unspent grants and receipts**

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance in accordance with GRAP 9.

#### ***21.2.5 Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure***

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

#### ***21.2.6 Services received in kind***

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

## **22. VALUE ADDED TAX**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

## **23. GRANTS-IN-AID**

The municipality transfers money to individuals, organizations and other sectors of government from time to time. When making these transfers, the municipality does not:-

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognized in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

## **24. UNAUTHORISED EXPENDITURE**

Section 1 of the Municipal Finance Management Act (MFMA), No 56 of 2003, defines "unauthorised expenditure" as follows –

- (a) Overspending of the total amount appropriated in the municipality's approved budget;
- (b) Overspending of the total amount appropriated for a vote in the approved budget;
- (c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose or
- (e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;

Section 1 of the MFMA also defines a "**vote**" as:

- a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned

The Municipality uses the Government Finance Statistics (GFS) functions as well as directorates as the main groupings of segments of the Municipality's budget segments within the Municipality are grouped per directorate to facilitate greater accountability and budget implementation by the respective Executive Managers as well as per GFS classification to facilitate comparisons on a higher level.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## **25. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## **26. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## **27. FOREIGN CURRENCIES**

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost or fair value in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in surplus or deficit.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash flows arising from transactions in a foreign currency are recorded in Rand's by applying, to the foreign currency amount, the exchange rate between the Rand and the foreign currency at the date of the cash flow.

## **28. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Details of changes in accounting policies, changes in estimates and correction of errors are disclosed in the notes to the annual financial statements where applicable.

## **29. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager and Section 56 Executive Managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.



### **30. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### **31. COMPARATIVE INFORMATION AND BUDGET INFORMATION**

#### **31.1 Current year comparatives**

The annual budget figures have been prepared in accordance with the Budget Reporting regulation on the accrual basis of accounting and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving motivations for over- or under spending on line items where it is found to be material. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2014 to 30 June 2015.

In general a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the financial statements in determining whether a difference between the budgeted and actual amount is material.

#### **31.2 Prior year comparatives**

The comparative figures of only one prior period is disclosed. When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

### **32. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.



*“A place of excellence”*

# **DRAKENSTEIN MUNICIPALITY**

## **CASH & INVESTMENT MANAGEMENT POLICY**

**1 July 2016**

Approved by Council: 20 May 2016  
Date of implementation: 1 July 2016

## TABLE OF CONTENTS

	PAGE
PREAMBLE.....	3
1. DEFINITIONS.....	4
2. LEGAL FRAMEWORK.....	5
3. INVESTMENT POLICY OBJECTIVES .....	6
4. CASH MANAGEMENT.....	7
5. STANDARDS OF ETHICS, JUDGEMENT AND DUE CARE.....	10
6. INVESTMENT PRINCIPLES AND PRACTICES.....	11
7. CASH MANAGEMENT PRINCIPLES AND PRACTICES.....	14
8. CONTROLS OVER MANAGEMENT OF CASH AND INVESTMENT.....	23
9. DELEGATION OF AUTHORITY.....	24
10. SHORT TITLE.....	24
ANNEXURE A: CONTRACTED 3RD PARTY VENDORS .....	25
ANNEXURE B: PREFERRED LIST OF INVESTMENT INSTITUTIONS.....	26

## **PREAMBLE**

Whereas section 13 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) determines that a municipality must introduce appropriate and effective investment arrangements;

And whereas a municipality must disclose its investment details;

And whereas Councillors and officials as trustees of public funds, have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible;

Now therefore the Drakenstein Municipality adopts the following Cash and Investment Management Policy.

## 1. DEFINITIONS

1.1 For the purpose of this policy, unless the context indicates otherwise, any word or expression to which a meaning has been attached in the Act shall bear the same meaning and means:-

1.1.1 **“Accounting Officer”** is a person appointed by the Municipality in terms of Section 82 of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998) and who is the head of administration and also the Municipal Manager for the Municipality;

1.1.2 **“Chief Financial Officer”** is an officer of the municipality appointed as the Head of the Finance Department and includes any person –

(a) Acting in such position; and

(b) To whom the Chief Financial Officer has delegated a power, function or duty in respect of such a delegated power, function or duty;

1.1.3 **“Council”** or **“Municipal Council”** is a Municipal Council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and for purposes of this policy, the Municipal Council of the Drakenstein Municipality;

1.1.4 **“Councillor”** is a member of the Municipal Council;

1.1.5 **“Investments”** is funds not immediately required for the defraying of expenses and invested at approved financial institutions;

1.1.6 **“Municipal Manager”** is the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) and includes any person –

- (a) Acting in such position; and
- (b) To whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty;

1.1.7 **“Municipality”** is the institution that is responsible for the collection of funds and the provision of services to the customers of Drakenstein; and

1.1.8 **“Public funds”** are all monies received by the municipality to perform the functions allocated to them.

## 2. LEGAL FRAMEWORK

2.1 The Cash & Investment Management Policy is in accordance with the requirements of section 13 of the Municipal Finance Management Act and any further prescriptions made by the Minister of Finance.

2.2 The municipality shall at all times conduct its Cash and Investment Management Policy in compliance with the provisions and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.

2.3 The Local Government: Municipal Finance Management Act Municipal Investment Regulations have been promulgated and have effect as from 1 April 2005.

### **3. INVESTMENT POLICY OBJECTIVES**

3.1 Drakenstein Municipality's main objectives of this Policy are –

- (a) To ensure compliance with the relevant legal and statutory requirements relating to cash management;
- (b) To ensure the preservation and safety of the municipality's investments;
- (c) To ensure diversification of the municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities;
- (d) To ensure timeous reporting of the investment portfolio as required by the Act in accordance with Generally Recognised Accounting Practice (GRAP); and
- (e) To ensure that the liquidity needs of the municipality are properly addressed.

3.2 This Policy is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenue is not needed for capital or operational purposes. The effectiveness of the Policy is dependent on the accuracy of the municipality's cash management programme, which has to identify the time when and period, for which such revenues are surplus.

3.3 It is Council's responsibility as a trustee of the community's revenue, to ensure that the money that is not immediately required should be invested in order to optimise the funds available to the municipality and cash resources are effectively and efficiently managed.

## 4. CASH MANAGEMENT

### 4.1 Bank Account Administration: (MFMA – Section 7, 8, 9 and 10)

#### 4.1.1 **Cash Management:**

All cash that has been receipted are deposited into the current primary bank account the following working day.

##### (a) Cash Surpluses and Shortages

- (i) **Surpluses:** Cash Surpluses on hand after daily balancing of cashiers is to be paid in the next working day into a surplus vote (5005/250/50500)
- (ii) **Shortages:** Shortages with a value of R 100 or less must be paid in by the cashier at end of their daily shifts. Amounts greater than R 100 gets deducted once off from their next salary payment.

#### 4.1.2 **Cheque Management:**

Cheques are printed in batch format (to be inserted into line printers) to prevent the removing of cheques from a batch. Cheques are delivered in sealed boxes where strict control is exercised over the numerical sequence of cheques on the expenditure system by means of a cheque register.



#### **4.1.3 Delegations / Rights:**

The incumbents of the following post are authorised to sign cheques on behalf of Council.

(a) Cheques

**A-Signatories:** Municipal Manager;  
Chief Financial Officer;  
Senior Manager: Financial Management Support;  
Senior Manager: Revenue and Expenditure;  
Manager: Revenue;  
Manager: Expenditure;  
Manager: Financial Reporting;  
Manager: Budget and Cost Accounting; and  
Manager: Assets and Insurance Management.

**B-Signatories:** Chief Accountant: Financial Statements;  
Chief Accountant: Budgets;  
Senior Accountant: Water & Electricity Billing;  
Senior Accountant: Property Rates, Sundries,  
Housing & Pre-Paid Billing;  
Senior Accountant: Credit Control, Customer Care,  
Indigent Support & Revenue Protection;  
Senior Accountant: Creditors Administration.

(b) Electronic Fund Transfers:

Authorisation same as per cheques above.

(c) Petty Cash:

Petty cashiers receive an amount (float) to reimburse employees for expenditure to a maximum amount as set out in the Petty Cash Policy.

(d) Control over bank accounts:

The Municipal Manager will in writing authorise the Chief Financial Officer or any other senior financial official of the Municipality to exercise control over the investment or withdrawal of funds in any bank account of the Municipality.

(e) Receipting of money:

The following persons or institutions have delegated power to receive money on Council's behalf –

- (i) Officials acting as municipal cashiers through the receiving of cash and other payment instruments; and
- (ii) 3<sup>rd</sup> Party Vendors as contracted as listed in Annexure A: Contracted 3<sup>rd</sup> Party Vendors.

Management will have the delegated right to review and amend Annexure A on an annual basis provided that all amendments must be reported to Council.

**4.1.4 Private money:**

No municipal employee is allowed to –

- (a) Use Council's cash funds at any stage to be replaced at a later stage;
- (b) Change an official's cheque for cash; and

- (c) Safeguard private money amongst Council's cash (e.g. Cashier drawers, petty cash boxes, safes, etcetera)

#### **4.1.5 Management of cash flow:**

The Chief Financial Officer shall maintain a cash flow system, and ensure that funds not immediately required are invested as required. All Departments or Directorates shall in this regard furnish the Chief Financial Officer with their respective cash flow needs on a monthly basis, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Departments themselves.

#### **4.1.6 Working Capital:**

The provision for doubtful debts is calculated on a probability basis, which takes the following factors into account: Debtor type, age of debt, number of cut-off, whether the debtors has been handed over as well as the ownership status.

#### **4.1.7 Cashier Floats**

Cashiers receive an amount (float) which needs to be returned to the municipality at the end of each their individual shifts. These floats are used to give change to consumer after paying their municipal accounts, motor registrations, fines, etc.

Floats currently allocated:

Cash Management Cashiers: Float of R500 each; and  
Traffic Department Cashiers: Float of R500 each.

## **5. STANDARDS OF ETHICS, JUDGEMENT AND DUE CARE**

5.1 In dealing with financial institutions, the following ethical principles must be observed –

- (a) The Chief Financial Officer shall not accede to any influence by or interference from councillors, investment agents, institutions or any other outsiders and will take reasonable steps to ensure the diversity of its investment portfolio across investees, type of investments and investment maturity;
- (b) All investments made must be genuine investments and not investments made for speculation purposes;
- (c) All investments made on behalf of Drakenstein Municipality must be made in the name of the Municipality;
- (d) Under no circumstances may inducements to invest be accepted;
- (e) The CFO or any delegated official shall not as a general rule discuss nor disclose interest rates quoted by one institution to another institution while the investment transaction is in progress or any information regarding the current cash position or its projected future cash flows of the municipality to investees. After the transaction has been finalised, limited information such as interest rates quoted by one institution may be disclosed to another institution; and
- (f) The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

## **6. INVESTMENT PRINCIPLES AND PRACTICES**

**6.1** According to Government Gazette No. 27431 of 1 April 2005, the following are permitted investments which a municipality may invest in –

- (a) Securities issued by the national government;
- (b) Listed corporate bonds with an investment grade rating from a national or internationally recognised credit rating agency;
- (c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- (e) Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- (f) Banker's acceptance certificates or negotiable certificates of deposits of bank registered in terms of the Banks Act, 1990;
- (g) Guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) Repurchase agreement with banks registered in terms of the Banks Act, 1990;
- (i) Municipal bonds issued by a municipality; and
- (j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consulting with the Financial Services Board.

**6.2** Taking the above mentioned guidelines into account, the following guiding principles are to be adhered to in order to facilitate the administration of Council's investment portfolio.

### **6.2.1 *Limit exposure to single institution***

- (a) Investment of funds, where this involves large amounts, should be distributed over more than one institution in order to limit Council's risk exposure.
- (b) It is considered prudent that not more than 50% of Council's investment portfolio should be held with any specific Institution, as identified in Annexure B: Preferred List of Investment Institutions, at any given time.
- (c) Management will have the delegated right to review Annexure B on an annual basis and change (if necessary), provided that all changes should be reported to Council.

### **6.2.2 *Risks and Return***

- (a) Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned.
- (b) No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

### **6.2.3 *Borrowing for Re-Investment***

- (a) Council should refrain from borrowing monies for the purpose of re-investment, as this is tantamount to speculation with public funds.

### **6.2.4 *Nominee Accounts***

- (a) All monies shall be invested directly with the relevant institutions. On no account may monies be placed in a nominee account.

#### **6.2.5 Prohibited Investments**

- (a) Drakenstein Municipality shall not be permitted to make investments in –
  - (i) Listed or unlisted shares, or unit trusts;
  - (ii) Stand-alone derivative instruments;
  - (iii) Investments denominated in, or linked to, foreign currencies;
  - (iv) Market linked endowment policies; or
  - (v) Credit linked notes.
- (b) The municipality shall not borrow for the purpose of investing.
- (c) The municipality shall not buy and sell money market instruments, to speculate with the view to making capital profits.

## **7. CASH MANAGEMENT PRINCIPLES AND PRACTICES**

### **7.1 General**

- 7.1.1 Should it be ascertained that surplus funds are available for investment; then written quotations including faxed quotations should be obtained from financial institutions for various forms of investment, investment terms and rates of interest.

7.1.2 The investment shall be placed with an institution offering the most favourable rate provided such investment is in accordance with the terms and conditions of this policy.

7.1.3 Institutions should be advised that, in submitting quotations, they must offer their best rates of interest and that no further negotiation or discussion will be entered into with them after they have submitted their quotation.

## **7.2 Payment of Commission**

7.2.1 A certificate shall be issued in respect of each and every investment made by the financial institution receiving the investment and no payment of any commission or payment in kind will be made to any party in respect of the investment so made.

## **7.3 Internal Investments**

7.3.1 Before planning to invest funds externally, consideration must be given to whether the funds may be utilised at an equivalent rate to substitute external borrowing as there is normally a margin between the rate at which Council may borrow funds and the rate at which investments may be made over similar periods.

## **7.4 Cash at Bank**

7.4.1 When funds are held in a current account, it is a good business practice to operate a call account. The overriding principle is that funds in the current account are to be kept at an absolute minimum, except if interest rate on current account is more or less the same than a call deposit account.

## **7.5 Credit Worthiness**



- 7.5.1 Prior to investing in smaller registered financial institutions, the Financial Officer must ensure that the Council is not over-exposed and should satisfy itself as to the credit-worthiness and previous track record of the institution before placing funds.

## **7.6 Receipting Management (Section 64 of MFMA)**

- 7.6.1 All moneys received and receipted must be deposited the next working day in Council's primary bank account.
- 7.6.2 All revenue received by the Municipality, including revenue received by any collecting agent on its behalf, is recorded at least on a weekly basis.
- 7.6.3 All monies collected by the Municipality on behalf of another organ of state must be transferred to that organ of state at least on a monthly basis.

## **7.7 Expenditure Management (Section 65(2)(d) of MFMA)**

- 7.7.1 All payments by the Municipality are made –
- (a) Directly to the person to whom it is due unless otherwise for reasons as may be prescribed;
  - (b) Either electronically or by way of non-transferable cheques or cash payments for exceptional reasons and only to an approved / prescribed limit; and
  - (c) Creditor's payments must be paid within 30 days of the creditor's statement, with the exception of BBEEE's, where a seven day payment cycle may apply.

7.7.2 All payments are requested (payment requisition) by one signatory (B-signatory) and authorised by a second signatory (A-signatory). The responsibility lies with the B-signatory to verify all payments for corrections.

7.7.3 Cheque and electronic payments must be signed by two authorised signatures, two A-signatories or one A-signatory and one B-signatory. Two B-signatories may not authorise cheque and electronic payments.

## 7.8 **Withdrawals (Section 11 of MFMA)**

7.8.1 Only a senior official(s) acting on the written authority of the Accounting Officer may withdraw money or authorise the withdrawal of money from any of the Municipality's bank accounts and may do so only –

- (a) To defray expenditure appropriated in terms of an approved budget;
- (b) To defray expenditure authorised in terms of section 26(4);
- (c) To defray unforeseeable and unavoidable expenditure authorised in terms of section 29 (1);
- (d) In the case of a bank account opened in terms of section 12, to make payments from the account in accordance with subsection (4) of that section;
- (e) To pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including –
  - (i) Money collected by the municipality on behalf of that person or organ of state by agreement; or
  - (ii) Any insurance or other payments received by the municipality for that person or organ of state;

- (f) To refund money incorrectly paid into a bank account;
- (g) To refund guarantees, sureties and security deposits;
- (h) For cash management and investment purposes in accordance with section 13;
- (i) To defray increased expenditure in terms of section 31; or
- (j) For such other purposes as may be prescribed.

7.8.2 Money may be withdrawn from a bank account in terms of subsection 7.8.1(b) to (j) without appropriation in terms of an approved budget.

7.8.3 The Accounting Officer must within 30 days after the end of each quarter –

- (a) Table in the municipal council a consolidated report of all withdrawals made in terms of subsection 7.8.1(b) to ( j) during that quarter; and
- (b) Submit a copy of the report to the relevant provincial treasury and the Auditor-General.

## 7.9 **Short Term Debt (Section 45 of MFMA)**

7.9.1 A municipality may incur short-term debt only in accordance with and subject to the provisions of this Act and only when necessary to bridge –

- (a) Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
- (b) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

7.9.2 A municipality may incur short-term debt only if –

- (a) A resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
- (b) The Accounting Officer has signed the agreement or other document, which creates or acknowledges the debt.

7.9.3 For the purpose of subsection (2)(a), a municipal council may –

- (a) Approve a short-term debt transaction individually; or
- (b) Approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that –
  - (i) The credit limit must be specified in the resolution of the council;
  - (ii) The terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and
  - (iii) If the council approves a credit facility that is limited to emergency use, the Accounting Officer must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

7.9.4 A municipality –

- (a) Must pay off short-term debt within the financial year; and
- (b) May not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

7.9.5 (a) No lender may wilfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection (4)(a).

(b) If a lender wilfully extends credit to a municipality in contravention of paragraph (a), the municipality is not bound to repay the loan or interest on the loan.

7.9.6 Subsection (5)(b) does not apply if the lender –

(a) Relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

(b) Did not know and has no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

## **7.10 Cash Procedures**

### **7.10.1 Internal Controls**

The supervisor checks floats of all the cashiers on daily basis.

### **7.10.2 Issuing of Receipts**

Potential clients come to cash office, provide cashier with a municipal account to make a payment, the cashier will then issue a receipt.

### **7.10.3 Cancellation of Receipts**

If and when the cashier makes an error in respect of payment receipted, the cashier will call the supervisor, to cancel the receipt. This is done while the

client is still at the cash office, and re-issues the correct receipt to the client. The cashier and the supervisor then sign the cancelled receipt.

#### **7.10.4 Cash Balancing**

After the end of each shift, the cashier will count the monies received, and do a daily cashier balancing. If the amounts entered by the cashier are correct the system automatically prints a balancing report, but if the amounts entered by the cashier are not correct, the supervisor is called. The supervisor will then re-count the money, as well as the cash float, enter the supervisor password to establish what the cash collected for the day should be. If short the cashier will then pay the monies in immediately (refer to section 4.1.1(a)(ii)), if there is a surplus the cashier will receipt the surplus on the next working day. If the cashier balance's with the first attempt the procedure is that the supervisors will re-count the cash collected for the day, do a supervisor balancing and a report is generated automatically. This then balances off the cashier for that day and the day is then closed off and no transactions can be done for that day.

#### **7.10.5 Deposit Books**

Each cashier has a deposit book, as each pay point has a number. The deposit books are in numerical order. Deposit books is kept in stock, and when the last book is used the chief clerk: cashiers will then re-order books from the bank.

#### **7.10.6 Other payment Methods**

##### **(a) Direct Deposits and ACB**

- (i) Client will do a direct deposit into municipal bank account via the Internet or by deposit slip via their bank, using municipal account number as reference. This information is extracted daily and when doing uploads from the bank is then credited against the clients' accounts.

- (ii) Accounts are also paid by means of a debit order (ACB) payment by consumer's banker.

(b) **3<sup>rd</sup> Parties**

Clients do a payment at Pick & Pay, Shoprite, SPAR, and etcetera – refer to Annexure A. Up load's is done daily from external service provider extracting the information and then crediting the various clients' accounts.

(c) **Cheque Deposit**

Client will come to cash office, pay with a cheque and a receipt will be issued to him/her. Clients will also deposit cheques into cheque deposit box at the municipal office, these cheques are taken out of the box on a daily basis, receipted by the cashier and the receipt is posted to client on request thereof. For a week after the municipal due date, cheques deposited into the cheque box is written up, and receipted by the cahier.

(d) **Mailed Cheques**

Clients will mail their cheques attached to their municipal account, this is then collected from the post office daily, it then goes to our records department, who will write all the cheques up in a book, distribute it to the Chief Clerk: Cashier. The Chief Clerk: Cashier will then tick it off, and will hand it to the cashier to be receipted.

## **8. CONTROLS OVER MANAGEMENT OF CASH & INVESTMENT**

- 8.1 A proper record must be maintained of all investments made indicating at least the Institution, fund, interest rate, and maturing date.

- 8.2 The Financial Officer must retain all quotations received for record and audit purposes.
- 8.3 Interest must be correctly calculated, received and recorded timeously.
- 8.4 All investment certificates are to be kept in a securities file which shall be safeguarded in a fire proof safe.
- 8.5 In respect of grant funds, a separate file must be kept of the letter of grant and other pertinent information. Regular reports must be submitted to all grant agencies.
- 8.6 The Chief Financial Officer must compile and will be responsible for the maintenance of an Investment Register complying with audit requirements.
- 8.7 The Chief Financial Officer shall every month submit a report to the Council on the Council's Investment portfolio, including the type of investment, interest rates, period of investment and summary of the exposures to particular financial institutions.

## **9. DELEGATION OF AUTHORITY**

- 9.1 The Council may, in terms of Section 59 of the Municipal Systems Act 2000, delegate any of its functions and responsibilities in respect of this policy to a Committee of the Council, the Municipal Manager, the Chief Financial Officer or any political functionary of the Council provided that such delegation will not absolve the person to whom such a function or responsibility has been delegated from complying with any statutory reporting requirement or such reporting requirement as may be contained in this policy.



## **10. SHORT TITLE**

10.1 This policy is called the Drakenstein Municipality Cash and Investment Policy.

## **ANEXURE A: CONTRACTED 3<sup>RD</sup> PARTY VENDORS**

### **List of approved and contracted 3<sup>rd</sup> Party Vendors**

1. Municipal Accounts –
  - (a) Pay At Services (Pty) Ltd (Pay@) with the following Pay@ pay points:
    - (i) Pick n Pay;
    - (ii) Shoprite / Checkers;
    - (iii) SPAR; and
    - (iv) PEP Stores
  - (b) South African Post Offices.
2. Traffic Fines –
  - (a) Easy Pay pay points; and
  - (b) Syntell.
3. Pre-paid Electricity –
  - (a) Pre-paid Electricity Vendors; and
  - (b) Actaris (Pre-paid Electricity software supplier and Vendor administration company).

## **ANEXURE B: PREFERRED LIST OF BANKING INSTITUTIONS**

### **List of currently approved Investees**

1. Deposit taking institutions –
  - (a) ABSA Bank;
  - (b) FirstRand Bank;
  - (c) Investec Bank;
  - (d) Nedbank;
  - (e) Standard Bank;
  - (f) Public Investment Commissioners; and
  - (g) Corporation for Public Deposits.
2. Corporate bond issuers –
  - (a) None currently approved.
3. Municipal bond issuers –
  - (a) None currently approved.
4. Endowment policy issuers –
  - (a) None currently approved.
5. National Government / Parastatals –
  - (a) RSA fixed income stock; and
  - (b) Eskom fixed income stock.



*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **FINANCIAL ASSET MANAGEMENT POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## CONTENTS

PREAMBLE .....	3
ABBREVIATIONS .....	4
1. PURPOSE OF THIS DOCUMENT .....	5
2. BACKGROUND .....	5
3. REGULATORY FRAMEWORK .....	9
4. POLICY FRAMEWORK .....	19
5. POLICY FOR ASSET ACCOUNTING.....	23
6. POLICY FOR ASSET SAFEGUARDING.....	88
7. POLICY FOR LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS.....	90
ANNEXURES .....	98
ANNEXURE A: ASSET CLASSIFICATION .....	98
ANNEXURE B: ASSET TYPES NOT CAPITALISED .....	105
ANNEXURE C: ASSETS LISTED IN SUB-REGISTERS.....	107

## **PREAMBLE**

Whereas section 63(2)(b) of the Municipal Finance Management Act (Act no. 56 of 2003) requires a Municipality's assets to be valued according to standards of generally recognised accounting practice (GRAP) and section 122(3) determines the preparation of annual financial statements in accordance with GRAP;

And whereas sections 14 and 90 of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) sets out certain requirements regarding disposal of municipal assets and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued;

And whereas the Municipal Council of Drakenstein Municipality wishes to adopt a policy to guide the Municipal Manager in the financial management of the Municipality's assets;

And whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the Financial Asset Management Policy which regulate the acquisition, safeguarding and maintenance of all assets;

And whereas these assets must be safeguarded and maintained over their useful lives and may be –

- Used in the production or supply of goods and services or for administrative purposes;
- Held to earn rentals or for capital appreciation or both; or
- Held indefinitely for the benefit of present and future generations, due to its cultural, environmental, historical, natural, scientific, technological or artistic significance.

Now therefore the Municipal Council of the Drakenstein Municipality adopts the following Financial Asset Management Policy.

## ABBREVIATIONS

AM	Asset Management
AR	Asset Register
CFO	Chief Financial Officer
DM	Drakenstein Municipality
GRAP	Standards of Generally Recognised Accounting Practice
HA	Heritage Assets
IA	Intangible Assets
IP	Investment Property
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MM	Municipal Manager (Accounting Officer)
MSA	Municipal Systems Act (No. 32 of 2000)
OHSA	Occupational Health and Safety Act (No. 181 of 1993)
PPE	Property, Plant and Equipment

## **1. PURPOSE OF THIS DOCUMENT**

- 1.1 This document indicates the policy of Drakenstein Municipality (DM) for the management of its assets (which excludes financial assets such as receivables and cash), and it commits the Municipality to –
- (a) Managing and maintaining municipal assets in a way that is aligned with the Municipality's strategic objectives and recognised good practice; and
  - (b) Establishing and maintaining an asset register that complies with the latest accounting standards.

## **2. BACKGROUND**

### **2.1 RATIONALE FOR ASSET MANAGEMENT**

- 2.1.1 Municipal assets are the means by which the Municipality delivers a range of essential municipal services. Consequently the management of assets is critical to meeting the strategic objectives of the Municipality and in measuring its performance.
- 2.1.2 The principal objective of asset management is therefore to enable the Municipality to meet its service delivery objectives efficiently and effectively. Effective asset management also makes the most of the service potential of assets by ensuring they are appropriately used and maintained. Good asset management facilitates the provision of services in a financially sustainable manner requiring adequate automation of critical processes within the asset management cycle.
- 2.1.3 Typical to an effective and efficient system at least the following functions need to be addressed by the minimum business process requirements –



- (a) Safeguarding of assets, e.g. asset tracking, numbering and locations;
- (b) Maintaining assets, planned and unplanned maintenance which needs to also incorporate capital asset renewal;
- (c) Maintenance costing as an input into asset replacement plans;
- (d) Establishing and maintaining a management, accounting and information system that accounts for the assets of the Municipality;
- (e) Asset valuation principles in accordance with Generally Recognised Accounting Practice;
- (f) Establishing and maintaining systems of internal controls over assets;
- (g) Establishing and maintaining an asset register;
- (h) Clarifying responsibilities and accountabilities for the asset management process; and
- (i) Insurance of assets.

2.1.4 The utilisation and management of assets is the prime mechanism by which a Municipality can fulfil its constitutional mandates for –

- (a) Delivery of sustainable services;
- (b) Social and economic development;
- (c) Promoting safe and health environments; and
- (d) Providing the basic needs to the community.

2.1.5 On behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in municipal assets. The Financial Asset

Management Policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of municipal assets. Stewardship has two components being the –

- (a) Physical administration by the Manager: Assets and Insurance Management (and directors of relevant departments); and
- (b) Financial administration by the Chief Financial Officer.

2.1.6 To this end, *statutory provisions* have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government, and *accounting standards* have been promulgated to ensure the appropriate financial treatment for different types of assets.

2.1.7 The requirements of these accounting standards include –

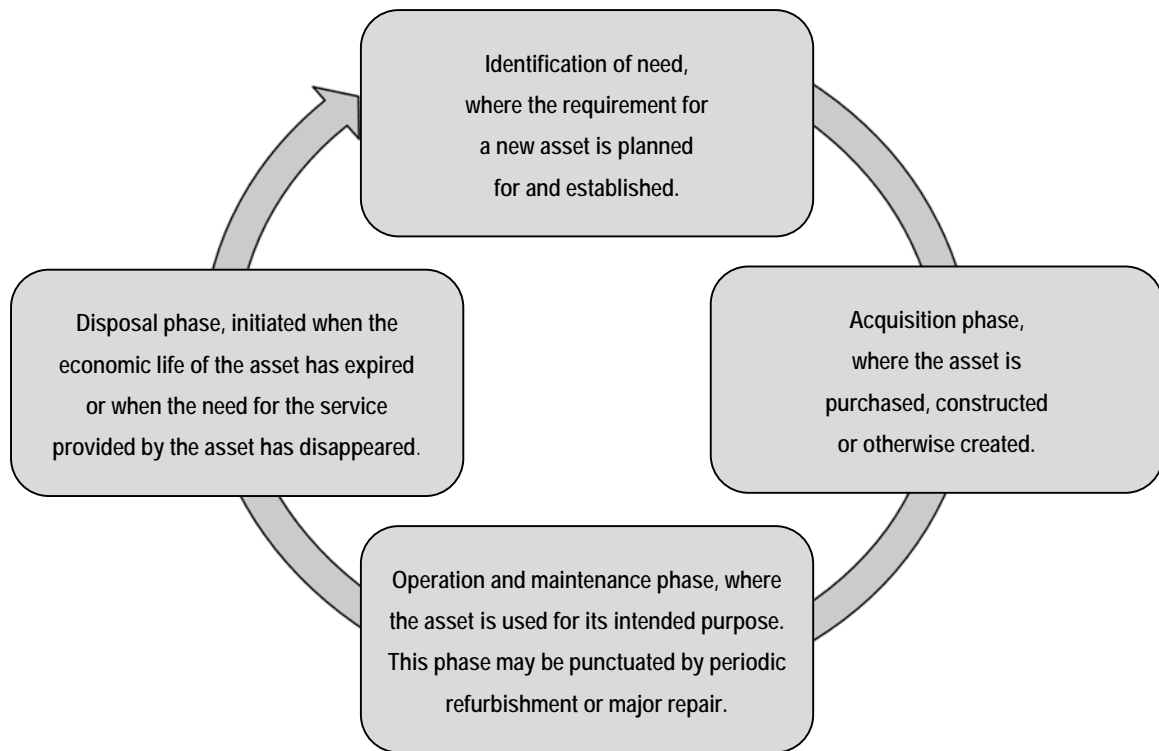
- (a) The compilation of asset registers covering all property, plant and equipment controlled by the Municipality; and
- (b) Accounting treatment for the acquisition, disposal, recording and subsequent measurement of assets.

## **2.2 THE ASSET LFCYCLE AND MANAGEMENT OF INFRASTRUCTURE ASSETS**

2.2.1 The main challenges associated with managing assets can be characterised as follows –

- (a) Movable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan); and
- (b) Immovable assets – life-cycle management (over a relatively long term lifespan).

2.2.2 The phases through which an asset passes during its life are –



2.2.3 The goal of Asset Management of immovable assets is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers. The core principles, addressed in more detail in the Asset Management Policy, are –

- (i) Taking a life-cycle approach;
- (ii) Developing cost-effective management strategies for long- term;
- (iii) Providing a defined level of service and monitoring performance;
- (iv) Understanding and meeting the impact of growth through demand management and infrastructure investment;
- (v) Managing risks associated with asset failures;
- (vi) Sustainable use of physical resources, and
- (vii) Continuous improvement in asset management practices.

- 2.2.4 Effective management of infrastructure and community facilities is central to the Municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several billion Rand.
- 2.2.5 Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include –
- (a) Long-term sustainability and risk management;
  - (b) Services delivery efficiency and improvement;
  - (c) Performance monitoring and accountability;
  - (d) Community interaction and transparent processes;
  - (e) Priority development of minimum basic services for all, and
  - (f) The provision financial support from central government in addressing the needs of the poor.
- 2.2.6 Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation- for the above objectives to be achieved, the IDP need to be informed by robust, relevant and holistic information relating to the management of the Municipality's infrastructure.
- 2.2.7 Immovable assets (such as infrastructure and community facilities) are the means by which the Municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the Municipality and in measuring its performance.

- 2.2.8 There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintenance and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the Municipality, including infrastructure, community services, financial planning, and corporate services .
- 2.2.9 Accordingly, the asset register adopted by a Municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

### **3. REGULATORY FRAMEWORK**

#### **3.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

- 3.1.1 This policy must comply with all relevant legislative requirements including –
- (a) The Constitution of the Republic of South Africa, 1996;
  - (b) The Municipal Systems Act, 2000; and
  - (c) The Municipal Finance Management Act, 2003
- 3.1.2 The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects –
- (a) Providing democratic and accountable government for local communities;
  - (b) Ensuring the provision of services to communities in a sustainable manner;
  - (c) Promoting social and economic development;

- (d) Promoting a safe and healthy environment ; and
- (e) Encouraging the involvement of communities and community organisations in matter of local government.

3.1.3 The manner in which a Municipality manages its assets is central to meeting the above challenges. Accordingly the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable. Section 55(2) of the MSA also emphasises the responsibility and accountability of the Municipal Manager, as accounting officer of the Municipality, for all assets of the Municipality.

3.1.4 The Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager by the requirement to ensure that –

- (a) The Municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- (b) The Municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- (c) The Municipality has and maintains a system of internal control of assets and liabilities.

3.1.5 Requirements regarding asset disposals are set out in sections 14 and 90 of the MFMA while section 75(1)(h) requires that certain information regarding assets disposed of is placed on the Municipality's website. Also developed in terms of the MFMA, the Municipal Asset Transfer Regulations is applicable to all municipalities and municipal entities transferring and disposing of capital assets, or granting a right to use, control or manage capital assets.

- 3.1.6 In addition, the Municipal Supply Chain Management Regulation no. 27636 has specific requirements regarding the disposal of capital assets.
- 3.1.7 The Occupational Health and Safety Act requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

## **3.2 ACCOUNTING STANDARDS**

- 3.2.1 The MFMA requires municipalities to comply with the standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment –

- (a) GRAP 12 – Inventories;
- (b) GRAP 13 – Leases and more specifically, deemed finance leases;
- (c) GRAP 16 – Identification of items to be treated as Investment Properties;
- (d) GRAP 17 – Property Plant and Equipment;
- (e) GRAP 21 – Impairment of non-cash-generating assets;
- (f) GRAP 26 – Impairment of cash-generating assets;
- (g) GRAP 27 – Agriculture;
- (h) GRAP 31 – Intangible assets and more specifically the treatment of items of software;
- (i) GRAP 100 – Non-current assets held for sale and Discontinued Operations; and
- (j) GRAP 103 – Heritage assets

### 3.3 DELEGATIONS AND KEY RESPONSIBILITIES

3.3.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Mayor and the Council and the Municipal Manager.

3.3.2 In accordance with the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his / her designates.

3.3.3 The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

#### 3.3.4 ***Municipal Manager***

(a) The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.

(b) The Municipal Manager shall ensure that –

(i) An Asset Management Committee is established, through which all asset processes and procedures will be implemented;

(ii) The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;



- (iii) The Municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
  - (iv) The Municipality has and maintains a system of internal control of assets, including an asset register; and
  - (v) The Executive Managers and their teams comply with this policy.
- (c) As Accounting Officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Executive Managers, of procedures to effectively and efficiently apply this policy.

### 3.3.5 ***Chief Financial Officer***

- (a) The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.
- (b) The CFO shall also ensure, in exercising his / her financial responsibilities, that –
  - (i) Appropriate systems of financial management and internal control are established and carried out for all assets;
  - (ii) Processes are established to ensure the appropriate measurement and valuation of different asset types as required by relevant standards of GRAP;

- (iii) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
  - (iv) All revenue due to the Municipality related to municipal assets is collected, for example rental income from leasing of immovable assets;
  - (v) The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of effective management;
  - (vi) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
  - (vii) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
  - (viii) The Executive Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
  - (ix) All acquisitions of assets are in accordance with the Supply Chain Management Policy; and
  - (x) This policy and support procedures are established, maintained and effectively communicated.
- (c) The CFO may delegate or otherwise assign responsibilities for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the ~~fixed~~ asset registrar of the Municipality, and shall ensure that a complete, accurate

and up-to-date computerised ~~fixed~~ asset register is maintained. No amendments, deletions or additions to the ~~fixed~~ asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

### 3.3.6 ***Executive Managers***

- (a) Executive Managers (the managers directly accountable to the Municipal Manager) shall ensure that –
  - (i) Appropriate systems of physical management and control are established and carried out for all assets;
  - (ii) The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
  - (iii) Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
  - (iv) All employees in their Directorates adhere to the approved Financial Asset Management Policy and Procedures;
  - (v) Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
  - (vi) The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
  - (vii) They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives; and

- (viii) They manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- (b) The Executive Managers may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

### 3.3.7 ***Manager: Assets and Insurance Management***

- (a) The CFO shall delegate the following duties to the Manager: Assets and Insurance Management –
  - (i) Ensuring that council assets are accounted for in accordance with Generally Recognised Accounting Practice (GRAP);
  - (ii) Ensuring that the general ledger is reconciled to the asset register;
  - (iii) Reviewing the reconciliation between the general ledger and the asset register; and
  - (iv) Providing the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- (b) No amendments to the asset register shall be made other than those authorised by the Manager: Assets and Insurance Management and the Chief Financial Officer.
- (c) The Manager: Assets and Insurance Management, together with the Asset Management Division, shall be responsible for ensuring that –
  - (i) A centralised asset register is implemented and maintained;

- (ii) Physical asset verification is performed annually to verify movable assets on the asset register. The results of this verification must be reported to the CFO (or delegated official);
  - (iii) Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register; and
  - (iv) The asset management systems, processes and controls can provide an accurate, reliable and up-to-date account of assets under their control.
- (d) The Manager: Assets and Insurance Management may delegate or otherwise assign responsibility for performing these functions, but they will remain accountable for ensuring that these activities are performed.

### 3.3.8 ***Manager: Budgets and Cost Accounting***

- (a) The Manager: Budgets and Cost Accounting, together with the Budgeting Division, shall be responsible for ensuring that –
  - (i) A clear description is provided with each project and the appropriate funding source is identified; and
  - (ii) Capital funds are released only after receiving written authority and a clear and concise description of the item to be purchased.

### 3.3.9 ***Manager: Expenditure***

- (a) The Manager: Expenditure, together with the Expenditure Division, shall be responsible for ensuring that –

- (i) Invoices authorised for payment are matched to a confirmation of goods or services received before processing such payment.

#### 3.3.10 ***Manager: Supply Chain Management***

- (a) The Manager: SCM, together with the SCM Division, shall be responsible for ensuring that –
  - (i) Correct procedures are followed in asset acquisitions as per the Municipality's Supply Chain Management Policy; and
  - (ii) The Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee comply with and be constituted in accordance with the Supply Chain Management Policy.

#### 3.3.11 ***Manager: Human Resources***

- (a) The Manager: Human Resources, together with his / her Department, shall be responsible for ensuring that –
  - (i) On termination of service of an employee, the Asset Management Division is informed in writing of the termination and the date of the final working day of the employee, to ensure that verification of assets under the custodianship of the employee is performed.
  - (ii) No monies are paid out on termination of service of an employee without receiving the relevant asset checklist form signed off by the Manager: Assets and Insurance Management.

## **4. POLICY FRAMEWORK**

### **4.1 POLICY OBJECTIVES**

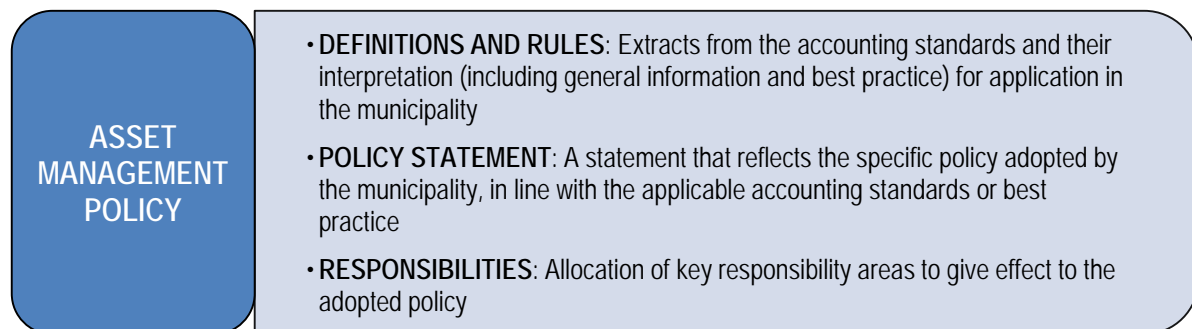
4.1.1 This policy has been designed to provide guidance during the development of an asset management strategy, asset management plans and asset management procedures. Detailed procedures, to ensure that management and employees within the Municipality understand their respective responsibilities and duties, are provided in a separate document.

4.1.2 The objective of this policy is to ensure that assets of the DM are properly managed and accounted for by –

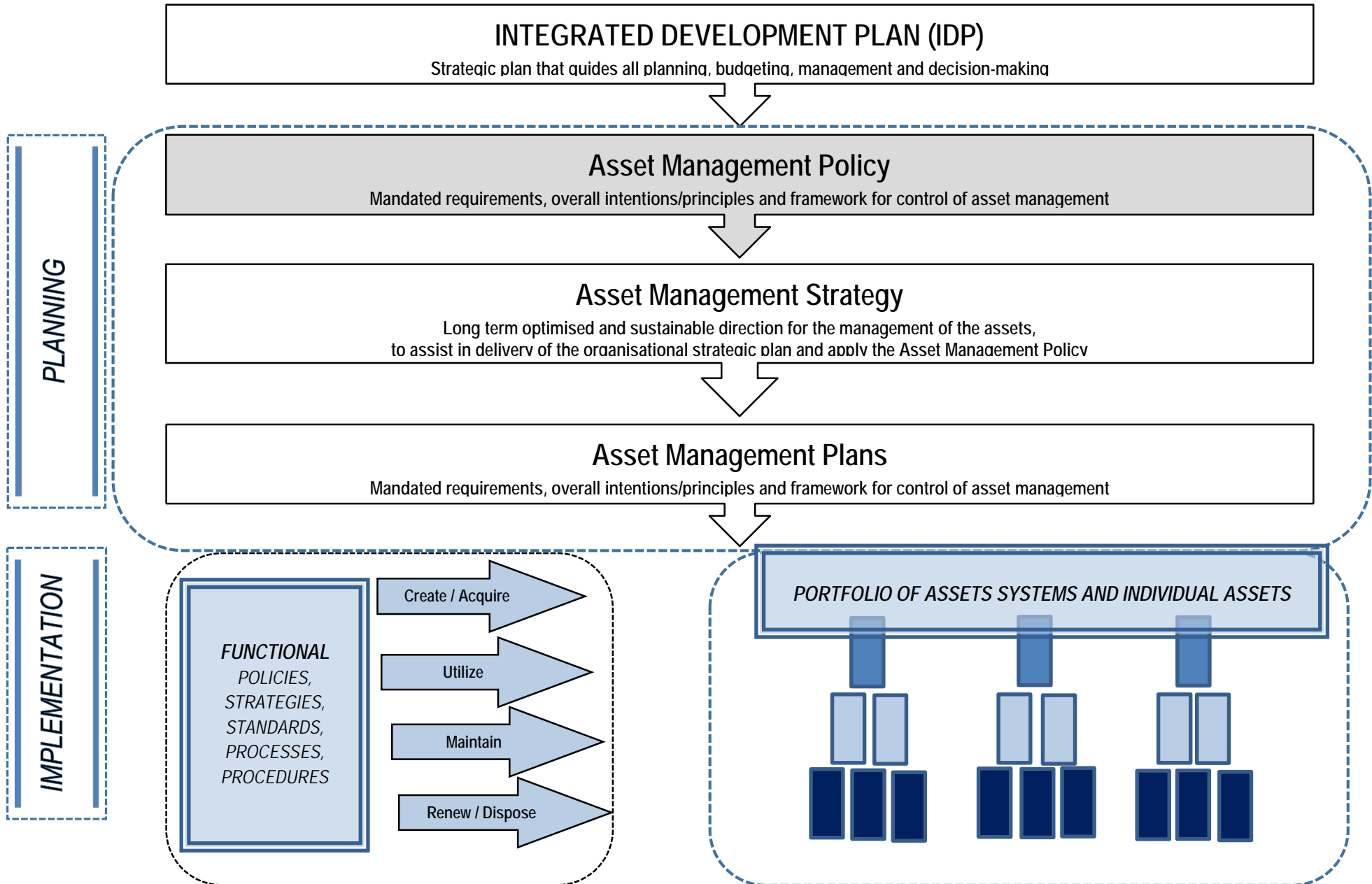
- (a) Applying asset management principles in a consistent manner and in accordance with legal requirements and recognised good practice;
- (b) Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- (c) The accurate recording of essential asset information;
- (d) The accurate recording of asset movements;
- (e) Treating the assets correctly in the Municipality's financial statements;
- (f) Providing accurate and meaningful management information;
- (g) Adequate insuring of assets;
- (h) Maintenance of Council's assets;
- (i) Ensuring that management are aware of their responsibilities with regard to assets;
- (j) Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss; and
- (k) Exercising strict physical controls over all assets.

## 4.2 POLICY FORMAT

- 4.2.1 The policy approach has mainly been to ~~firstly~~ focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets. The Asset Management Policy sets out the overall intentions, principles and framework for control of asset management.
- 4.2.2 The following figures give an overview to the format of presentation of this policy document, and how it links to separate documents that provide the strategy, plans and procedures.







### **4.3 RELATIONSHIP WITH OTHER POLICIES**

4.3.1 This policy needs to be read in conjunction with other relevant adopted policies of the Municipality, including the following –

- (a) Asset Management Policy: Defining the municipality's vision and intent regarding all aspects of asset management;
- (b) Delegation of Powers (Delegations Register): Identifying the processes surrounding the establishment of delegated authority;
- (c) SCM Policy: Regulating all processes and procedures relating to acquisitions;
- (d) Budget Policy: The processes to be followed during the budget process as well as pre-determined prioritisation methodology;
- (e) Accounting Policies: Governed by the Accounting Standards, the accounting policies determine the basis of recognition, measurement and recording of all transactions;
- (f) Asset Transfer Policy;
- (g) Fleet Management Policy; and
- (h) Insurance Management Policy.

4.3.2 This policy does not overrule the requirement to comply with other policies. The CFO will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

#### **4.4 APPROVAL AND EFFECTIVE DATE**

- 4.4.1 The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. The effective date for implementation of the policy is 1 July 2014.

#### **4.5 POLICY IMPLEMENTATION**

- 4.5.1 Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Directors, to give effect to this policy.

#### **4.6 POLICY AMENDMENT**

- 4.6.1 This policy will be updated whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of Council's assets. Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Executive Managers. The recommendations of the CFO shall be considered for adoption by Council.

### **5. POLICY FOR ASSET ACCOUNTING**

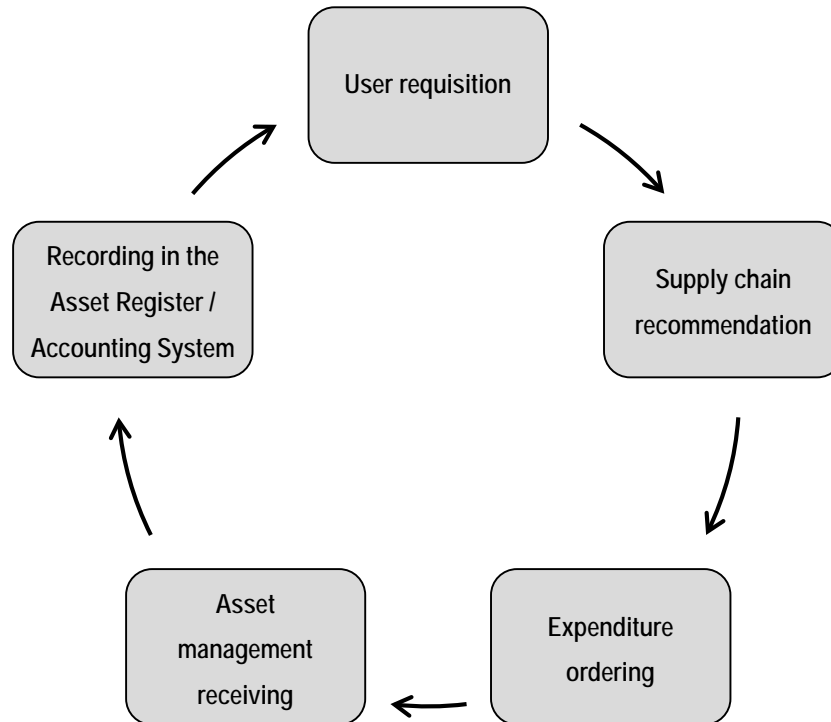
#### **5.1 ASSET ACQUISITION**

##### **5.1.1 *Definitions and rules***

##### **(a) Acquisition**

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is

deemed to be the time when control or legal title passes to the Municipality. The *Process Flow* during asset acquisition can be illustrated as follows –



(b) Creation of new infrastructure assets

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the Municipality in the past.

(c) Self-constructed assets

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality.

(d) Donated assets

A donated asset is an item that has been given to the Municipality by a third party in government or outside government without paying or actual or implied exchange.

5.1.2 ***Policy Statement***

- (a) Should the Municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset –
  - (i) The purpose for which the asset is required is in keeping with the objectives of the Municipality and will provide significant, direct and tangible benefit to it;
  - (ii) The asset meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103);
  - (iii) The asset has been budgeted for;
  - (iv) The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
  - (v) The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
  - (vi) The asset is appropriate to the task or requirement and is cost-effective over the life of the asset;
  - (vii) The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;

- (viii) Space and other necessary facilities to accommodate the asset are in place; and
  - (ix) The most suitable and appropriate type, brand, model, etc. has been selected.
- (b) The cost of all **new infrastructure facilities** (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.
- (c) **Work in progress** shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- (d) All assets that can be classified as assets and that are **constructed by the Municipality** should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.
- (e) **Donated assets** shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council prior to acceptance.

### 5.1.3 ***Responsibilities***

- (a) Before a capital project is included in the budget for approval, the Executive Director of the relevant department must demonstrate that they have considered –
  - (i) The projected cost over all the financial years until the project is operational;
  - (ii) The future operational costs and revenue on the project, including tax and tariff implications;
  - (iii) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
  - (iv) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
  - (v) The inclusion of this capital project in the integrated development plan and future budgets.
- (b) The CFO is accountable to ensure the Executive Manager of the relevant Directorate receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- (c) Executive Managers shall ensure that details of all capital work in progress is completed and submitted to the Manager: Assets and Insurance Management (or delegated official).
- (d) Each Executive Manager shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

- (e) Each Executive Manager shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- (f) Each Executive Manager shall notify the Manager: Assets and Insurance Management (or delegated official) when the works have been completed and separate componentized assets can be recognised on the asset register (unbundled).
- (g) On completion of the infrastructure project, the Executive Managers shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.
- (h) Executive Managers must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the Municipality.
- (i) Executive Managers must ensure that approval is obtained from the Municipal Manager prior to acceptance of a donated assets.

## **5.2 RECOGNITION**

### **5.2.1 *Definitions and Rules***

#### **(a) Assets**

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.



(b) Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not infallible.

(c) Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

(d) Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the Municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the Municipality, in consultation with the CFO and respective Executive Manager.

(e) Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

(f) Economic benefits

Economic benefits are derived from assets that generate net cash inflow.

(g) Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the Municipality, such as the provision of services.

(h) Non-current asset

A “non-current asset” is an asset with an expected useful life of greater than 12 months.

(i) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to other, or for administrative purposes; and are expected to be used during more than one period. This includes items necessary for environment or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment are broken down into groups of assets of a similar nature or function in the Municipality's operations for the purpose of disclosure in the financial statements.

(j) Immovable PPE

Immovable assets are structures such as buildings and roads. A plant that is built-in to the structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

(k) Heritage Assets

If the Municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(l) Investment Property

Investment property is defined as property (land and / or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capitals appreciation, or both (rather than for use in the production or supply of goods or services or for administration purpose or sale in the ordinary course of operations). Examples of investment property are office parks, shopping centres or housing financed and managed by a Municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the land has been determined.

(m) Intangible Assets

Intangible assets are defined as identifiable non-monetary assets without physical substances. Examples are licenses/rights, (such as water licenses), servitudes and software.

(n) Spares and standby equipment

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered assets) and are expensed when consumed. Spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are

considered capital spare parts and are recognised as an item of PPE immediately that they are available for use and in a location and condition necessary for it to be capable of operating in a manner intended by management. Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

(o) Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the Municipality) the right to use an asset for an agreed period of time in return for a payment. Leases are categorised into finance and operating leases. A finance lease transfers substantially all risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the assets are substantially transferred to the Municipality, the lease is regarded as a finance lease recognised by the Municipality. Where there is no substantial transfer of risks and rewards of ownership to the Municipality, the lease is considered an operating lease and payment are expensed in the income statement on a systematic basis (straight-line basis over the lease term).

(p) Asset custodian

The department that controls an asset, as well as the individual (asset custodian) that is responsible for the operations associated with such asset in the department, is identified by the respective Executive Manager, recorded, and communicated on recognition of the asset.

(q) Capitalisation Threshold

- (i) The capitalisation threshold is a policy decision of the Municipality and is the value above which assets are capitalised and reported in the statement of financial position as tangible or intangible capital assets as opposed to being expensed in the year of acquisition (accelerated depreciation). As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold is regarded as a deviation from GRAP standards and should be determined annually by comparison against materiality and must be determined at a level that will ensure that the Municipality does not deviate materially from the requirements of GRAP 17.
  
- (ii) The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset. The Municipality has taken the following into account when considering a capitalisation threshold –
  - (aa) The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
  - (bb) The cost of maintaining financial and management information on assets when the threshold is very low;
  - (cc) The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied; and
  - (dd) The size of the Municipality or the size of its service areas when setting a capitalisation threshold level. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

### **5.2.2 Policy statement**

- (a) A capital asset shall be recognised as an asset in the financial and asset records when –
  - (i) It is probable that future economic benefits or potential service delivery associated with the item will flow to the Municipality;
  - (ii) The cost or fair value of the item to the Municipality can be measured reliably;
  - (iii) The cost is above the municipal capitalisation threshold (if any); and
  - (iv) The item is expected to be used during more than one financial year.
- (b) The Municipality shall recognise all assets existing at the time of adoption of this policy and the development of new, upgraded and renewed assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards.
- (c) The capitalisation threshold is set at R 300 (three hundred rand), (excluding VAT where applicable), but the application thereof will be determined annually by the Municipality. Assets with a cost not exceeding the capitalisation threshold shall be expensed in the statement of financial performance and not be capitalised. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions.
- (d) However, the Municipality (Municipal Manager or delegated official) can determine with an internal memorandum which assets under the threshold can be classified as capital assets. In addition, certain types of assets are not expected to have operating lives exceeding one year, and such assets shall not be capitalised, while certain assets are listed

in sub-registers, with a reference thereto in the main asset register – these types of assets are listed in ***Annexures B and C***.

### **5.2.3 Responsibilities**

- (a) The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the recognition of existing and new assets.
- (b) Every Executive Manager shall ensure that all assets under their control are correctly recognised as assets.
- (c) The CFO shall keep a lease register with the following minimum information - name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.
- (d) Every Executive Manager shall ensure that all assets under their control are correctly capitalised and the capitalisation threshold applied as and when applicable.

## **5.3 CLASSIFICATION OF ASSETS**

### **5.3.1 Definitions and rules**

- (a) Asset Categories

The accounting categories of assets are as follows –

- (i) Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the Municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);

- (ii) Investment property;
- (iii) Intangible assets;
- (iv) Heritage assets;
- (v) Biological assets; and
- (vi) Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business).

(b) Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the Municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statement.

(c) PPE asset hierarchy

An assets hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the Municipality from a financial point of view, and for other reasons determined by the Municipality including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the Municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the Municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and component.

(d) PPE Land



PPE Land comprises any land held by the Municipality to be used in the production or supply of goods or for administrative purposes. The intention is not to develop or sell the property in the normal course of business. Land held for a currently undetermined future use, should not be included in PPE, but should be included in Investment Properties.

(e) PPE Buildings, structures and facilities

- (i) Buildings assets are buildings that are used for municipal operations such as operational buildings held by the Municipality to be used in the production or supply of goods or for administrative purposes and rental stock or housing not held for capital gain, as well as community halls and other municipal buildings utilised for the general well-being of the Municipality.
- (ii) Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.
- (iii) Other structures and facilities assets include other municipal structures and facilities such as parks, gardens, cemeteries, as well as recreational facilities.

(f) PPE Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets. Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. At DM these assets include Electricity networks, Water Networks, Sewerage (Sanitation) Networks, Roads (including storm water assets) and Solid Waste (Landfill site).

(g) Component approach

- (i) The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:
  - (aa) Significant cost; and
  - (bb) Considerable difference in useful life.
- (ii) If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

(h) Level of detail of componentisation

- (i) For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very

costly when dealing with assets that are very numerous in nature e.g. street signs, street lights, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below –

- (aa) Level 1: Service level (e.g. Drakenstein **Roads Infrastructure**);
- (bb) Level 2: Network level (e.g. **Paarl Roads** Network);
- (cc) Level 3: Facility level (e.g. Paarl **Bergrivier Boulevard**);
- (dd) Level 4: Maintenance item level (e.g. **Traffic sign** in Paarl Bergrivier Boulevard); and
- (ee) Level 5: Component level (e.g. **U-bolt** on Traffic sign in Paarl Bergrivier Boulevard).

- (ii) The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.
- (iii) The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the Municipality.

(i) PPE Housing assets

*Housing Assets* have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

(j) PPE – Other assets

Other assets are ordinary operational assets such as operational buildings, vehicles, equipment as well as furniture and fittings.

(k) Investment Property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operation). Examples of investment property are office parks, shopping centres or housing financed and managed by a Municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorder. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

(l) Intangible Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Example are licenses/right, (such as water licenses), servitudes and software.

(m) Heritage Assets

- (i) Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and work of art. Some heritage assets have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The Municipality needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such assessment. The asset should be accounted for as a heritage asset if, and only, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purpose. If a significant portion is used for production, administrative purpose or supply of

services or goods, the asset shall be accounted for in accordance with GRAP 17 on PPE.

- (ii) In the case of an asset not appearing in the adopted classification structure, a classification that is most closely comparable to the asset in question is used.

(n) Biological assets

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the Municipality from its ownership or control of the asset.

(o) Land Inventories

Inventory Property comprises any land owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land owned or acquired by the Municipality with the intention of developing such property for the purpose of selling or distributing it in the ordinary course of business.

### 5.3.2 Policy Statement

- (a) The accounting groups specified by GRAP and asset classes as set out below shall be adhered to as a minimum standard. An extended asset classification, as set out in **Annexure A**, has been adopted.

Accounting Group	Asset Class
Property, plant and equipment	Land
	Buildings, structures and facilities
	<ul style="list-style-type: none"> <li>Buildings</li> </ul>
	<ul style="list-style-type: none"> <li>Cemeteries, parks and gardens</li> </ul>
	<ul style="list-style-type: none"> <li>Recreational and sports facilities</li> </ul>
	<ul style="list-style-type: none"> <li>Housing assets (rental stock or housing stock not held for capital gain)</li> </ul>
	Infrastructure (assets which are part of a network of similar assets)
	Other assets (ordinary operational assets)
Heritage assets	Statues, monuments and memorials
	Historic buildings and sites
	Works of art, regalia and collections
	Conservation areas and nature reserves
Intangible Assets	Capitalised development cost
	Masterfile planning
	Computer software and systems
	Licences and rights
Investment property	Commercial property (market related rentals charged)
	Residential property (market related rentals charged)
	Land held for appreciation or development purposes
	Land with undetermined use

- (b) An extended asset classification, as set out in **Annexure A**, has been adopted, and asset hierarchies shall be progressively applied for each of the asset classes, separately identifying items at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.

- (c) PPE – Library Books

- (i) The books in a library book collection shall be documented and recorded in the library computer systems. The library computer system shall be well maintained and can be relied upon to provide the basis for the carrying value of the library book collection.
  - (ii) Where exact costs are not available, the value of the library book collection shall be determined by applying a standard rate to the quantities of different library books of different ages. Where library books of a particular value or importance are kept in the library these shall be separately recorded and valued. An identification tag shall be attached to these books to indicate this status.

- (d) Assets Treated as Inventory

- (i) Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of financial position.

- (ii) Such inventories shall, however, be recorded in an inventory register in the same manner as other assets.

(e) Investment Properties

- (i) Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE. If the Council of the Municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.
- (ii) The following types of Municipal Property **will be classified** as Investment Property –
  - (aa) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
  - (bb) Land held for a currently undetermined future use.
  - (cc) A building owned by the Municipality (or held by the Municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
  - (dd) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
  - (ee) Property that is being constructed or developed for future use as investment property.
- (iii) The following types of Municipal Property will **not be classified** as Investment Property –
  - (aa) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.



- (bb) Property being constructed or developed on behalf of the Provincial Government Housing Department.
- (cc) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- (dd) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- (ee) Property that is leased to another entity under a finance lease.
- (ff) Property held to provide a social service and which also generates cash inflows. For example if council holds housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.
- (gg) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.
- (hh) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

### **5.3.3 Responsibilities**

- (a) The CFO shall ensure that the classification of assets adopted by the Municipality complies with the statutory requirements.
- (b) The CFO shall ensure that the classifications indicated in ***Annexure A*** are applied, and in the case of an item of assets not appearing in the annexure, the classification applicable to the asset most closely comparable.
- (c) When required, the CFO shall consult with the Executive Managers responsible for assets to ensure an effective and appropriate asset hierarchy is determined for each class of assets to component level.
- (d) Every Executive Manager shall ensure that all assets under their control are classified correctly and shall advise the CFO when assets should be re-classified.

## **5.4 IDENTIFICATION**

### **5.4.1 *Definition and Rules***

- (a) Asset identification system

An asset identification system is a means to uniquely identify each asset in the Municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

(b) Policy Statement

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number - in the case of movable assets, if this identification number is not a barcode number due to impracticability of affixing such a tag to the asset, the serial number of the asset will be used as the unique identification number.

(c) Responsibilities

- (i) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall develop and implement an asset identification system to meet the policy objective.
- (ii) Executive Managers shall ensure that all the assets under their control are correctly barcoded or otherwise identifiable in the asset register.

## **5.5 ASSET REGISTER**

### **5.5.1 *Definitions and Rules***

(a) Asset Register

An asset register is a database with information relating to each asset. The asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standard for each of the asset classes, and the strategic and operational asset management needs of the Municipality.

(b) Updating data in the Asset Register

The asset register is updated by the Asset Officers only when authorised and instructed to do so by the Manager: Assets and Insurance Management.

(c) Policy Statement

- (i) An asset register shall be established and maintained to provide the data required to apply the applicable accounting standards, as well as other data considered by the Municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall reflect at least the following information –
  - (aa) A brief but meaningful description of each asset;
  - (bb) The date on which the asset was acquired or commissioned into use;
  - (cc) The location of the asset;
  - (dd) The responsible department(s) or vote(s) within which the assets will be used;
  - (ee) The title deed number, in the case of property;
  - (ff) The stand number, in the case of property;
  - (gg) Where applicable, the identification number;
  - (hh) The initial measurement basis used (Cost or Fair Value);
  - (ii) The original estimated useful life;
  - (jj) The revised useful life;
  - (kk) The residual value;
  - (ll) The original cost, or the revalued amount or the fair value if no costs are available;
  - (mm) The (last) revaluation date of the assets subject to revaluation;
  - (nn) The revalued value of such assets;
  - (oo) Accumulated depreciation to date;
  - (pp) The depreciation charge for the current financial year;
  - (qq) The carrying value of the asset;

- (rr) The method and rate of depreciation;
- (ss) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- (tt) Increases or the decreases resulting from revaluations (if applicable);
- (uu) The source of financing;
- (vv) Condition of the asset;
- (xx) The date on which the asset is disposed of;
- (yy) The disposal price (if any); and
- (zz) The date on which the asset is retired from use, if not disposed of.

- (ii) The asset register shall be updated and reconciled to the general ledger on a regular basis.

(d) Responsibilities

- (i) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall define the format of the asset register, and shall ensure that the format complies with the prevailing accounting standards.
- (ii) Executive Managers shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- (iii) The CFO shall establish procedures to control the completeness and integrity of the asset register data, and ensure proper application of the control procedures.

## 5.6 MEASUREMENT AT RECOGNITION

### 5.6.1 *Definitions and rules*

#### (a) Calculation of initial cost price

- (i) Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the Municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the Municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:
  - (aa) Costs of employee benefits (as defined GRAP 25) arising directly from the construction or acquisition of the item of the capital asset;
  - (bb) The cost of site preparation;
  - (cc) Initial delivery and handling costs;
  - (dd) Installation costs;
  - (ee) Professional fees such as for architects and engineers;
  - (ff) The estimated cost of dismantling and removing the asset and restoring the site; and
  - (gg) Interest costs when incurred on a qualifying asset in terms of GRAP 5.
- (ii) When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

#### (b) Input Tax (VAT)

- (i) In order for a Municipality to claim input tax, goods and services must be acquired by the Municipality for the purpose of consumption, use or supply in the course of making taxable supplies. It follows that a Municipality may not claim input tax where goods or services are acquired for the purposes of making exempt or other non-taxable supplies. The following are denied to be claimed as input tax –
  - (aa) Entertainment;
  - (bb) Motor Vehicles as defined in the VAT Act 89 of 1991; and
  - (cc) Goods and services it acquired as an agent on behalf of someone else.

(c) Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is required at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

(d) Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. However, where a heritage asset was acquired through a non-exchange transaction its cost is its fair value at the date of acquisition.

(e) Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

(f) Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the data acquired.

(g) Fair Value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for asset (for example - land and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciation replacement cost (DRC) approach may be used. Assessment of fair values is to be made by a professional with qualifications and appropriate knowledge and experience in valuation of the respective assets.

(h) Cost of an item of infrastructure

The capitalisation value comprises (i) purchase price and (ii) any directly attributable cost necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the Municipality, plus (iii) an initial estimate of the costs of dismantling



and removing the item and restoring the site on which it is located. VAT is excluded (unless the Municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the Municipality should capitalise the cost of the asset together with VAT).

(i) Cost associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

(j) Directly Attributable Costs

(i) Directly attributable costs are defined as –

- (aa) Cost of employee benefits arising directly from the construction or acquisition of the item;
- (bb) Costs of site preparation;
- (cc) Initial delivery and handling;
- (dd) Installation and assembly costs, cost of testing whether the asset is functioning properly, after deduction the net proceeds from selling any item produced while bringing the asset to that location and condition;
- (ee) Commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling an item produced while bringing the asset to its current condition and location); and
- (ff) Professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes).

(k) Changes in the existing decommissioning costs or restoration costs included in the costs of an item

- (i) Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows –
  - (aa) If the cost model is used –
    - (i) Changes in the liability shall be added to or deducted from the cost of the related asset;
    - (ii) If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit; and / or
    - (iii) If the adjustment results in an additional to the cost of an asset, the Municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the Municipality should test the asset for impairment.
  - (bb) If the revaluation model is used –
    - (i) A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit;
    - (ii) An increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset;
    - (iii) If the decrease in liability exceeds the carrying amount that would have recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit; and / or

- (iv) If the change in liability is an indication the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.

(l) Exchanges of Assets

In cases where assets are exchanged, the cost is deemed to be fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

(m) Finance Leases

A finance lease is recognised by the Municipality (the lessee) at the commencement of a lease as an asset and liability in the statement of financial position at equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

(n) Depreciated replacement cost

- (i) The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value

(RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used –

$$\text{DRC} = (\text{CRC} - \text{RC}) \times \text{RUL/EUL} + \text{RV}$$

- (ii) Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of assets for escalation to the valuation date are applied.

(o) Self-constructed PPE

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality. All assets that can be classified as assets and that are constructed by the Municipality should be recorded in the asset register and each component that is part of this asset should be depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect)

associated with the construction of the asset are summed and capitalised as an asset.

(p) Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use- then it shall be classified as an investment property.

(q) Borrowing costs

(i) Borrowing costs are interest and other costs incurred by the Municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings; amortisation of premiums or discounts associated with such borrowings; amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign borrowings when these are regarded as an adjustment to interest costs. Borrowing costs shall be capitalised if related to construction of a qualifying asset (one that necessarily takes a substantial period of time to get ready for its intended use or sale) and external funding is sourced to fund the project, i.e. - interest during construction.

(ii) In the following cases it is inappropriate to capitalise borrowing costs –

(aa) It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of the Municipality directly to the nature of the expenditure to be funded i.e. capital or current. In such case, the Municipality shall expense

those borrowing costs related to a qualifying asset directly to the statement of financial performance.

- (bb) In exceptional cases the Municipality is allowed to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. It may be difficult for the Municipality to identify a direct relationship between an asset and borrowing costs incurred because the financial activity is controlled centrally and it will not always be possible to keep track of the specific borrowing costs which should be allocated to the qualifying asset. As a reasonable effort and cost may outweigh the benefit of presenting the information, making it inappropriate to capitalise the borrowing cost.

(r) Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the allowed alternative treatment in GRAP 5 on Borrowing Costs.

## **5.6.2 Policy Statement**

- (a) An asset that qualifies for recognition shall be capitalised at cost. Interest on deferred payment will be expensed.
- (b) In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of assets shall be adopted on the following basis –

- (i) **PPE infrastructure, PPE structures and other facilities, PPE other assets** (movable and immovable) - depreciated replacement cost;
- (ii) **PPE land and PPE buildings** - values from the valuation roll (or in the event that such is not available, market value);
- (iii) **Heritage assets** - market value (or in the event that such is not available, no value shall be indicated, but the existence of such heritage assets shall be disclosed by means of an appropriate note); if the cost or value of heritage assets cannot be measured reliably, a description of the nature of the asset and the fact that the cost cannot be measured reliably should be disclosed;
- (iv) **Investment property** - values from the valuation roll (or in the event that such is not available, market value); and
- (v) **Intangible assets** - depreciated replacement cost.

### **5.6.3 Responsibilities**

- (a) The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Manager shall ensure that all assets under their control are correctly capitalised.
- (c) Every Executive Manager shall advise the CFO of any deferred payments from the Municipality, providing the relevant details of such.

## **5.7 MEASUREMENT AFTER RECOGNITION**

### **5.7.1 Definitions and Rules**

(a) Options

- (i) Accounting standards allow measurement after recognition of assets as follows –
  - (aa) PPE, Heritage assets and Intangible assets - on either a cost or revaluation model; and
  - (bb) Investment Property - either cost model or the fair value model.
- (ii) Different models can be applied, providing the treatment is consistent per asset class.

(b) Cost Model

When the cost model is adopted, an asset is carried after recognition at its cost (or deemed cost) less any accumulated depreciated and any accumulated impairment losses.

(c) Revaluation Model

- (i) When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- (ii) Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous



revaluations if the re-valued amount decrease from the previous re-valued amount) in the Revaluation Reserve.

- (iii) The revaluation surplus is transferred to the Accumulated Surplus (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the Municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year. If carrying amount based on the revaluation is less than the carrying value of the immovable asset recorded in the asset register, the carrying value of such asset is adjusted by increasing the accumulated depreciation of the immovable asset in question by an amount sufficient to adjust the carrying value to the value based on the revaluation. Such additional depreciation expenses form a charge, in the first instance, against the balance in any Revaluation Reserve previously created for such asset, and to the extent that such balance is sufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question in.

(d) Investment Property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair the fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the date. Investment property shall be valued on an annual basis. All fair value

adjustments shall be included in the surplus or deficit for the financial year.

(e) Subsequent Expenses

- (i) The Municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.
- (ii) Expenses incurred in the maintenance or repair (reinstatement) of assets that ensures that the useful operating life of the asset is attained, are considered as operating expenses and not capitalised, irrespective of the quantum of the expenses concerned.
- (iii) Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

(f) Rehabilitation / Enhancements/Renewals of capital assets

- (i) Expenses incurred in the enhancement of assets (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of assets are capitalised. Such expenses are recognised once the Municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) - prior to this, the expenses are recorded as work-in-progress.
  
- (ii) Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if –
  - (aa) The expenditure satisfies the recognition criteria;
  - (bb) That expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure –
    - (i) Increases the useful life of that capital asset (beyond its original useful life);
    - (ii) Increases the capital asset capacity (beyond its original capacity);
    - (iii) Increases the performance of the capital asset (beyond the original performance);
    - (iv) Increases the functionality of that capital asset;
    - (v) Reduces the future ownership costs of that capital asset significantly; or
    - (vi) Increases the size of the asset or changes its shape.
  
- (iii) The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or

renewed, the amount incurred will be added to the carrying value of the asset.

### **5.7.2 Policy Statement**

(a) Measurement after recognition shall be on the following basis –

(i) PPE excluding land and buildings, structures and facilities –

(aa) Cost Model – assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful lives, residual values and the depreciation methods applied to assets shall be reviewed annually.

(ii) Land and buildings PPE –

Revaluation Model – *Land* and *Buildings*, structures and facilities are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition. Depreciation is charged against *Buildings*, structures and facilities over their expected useful lives. Land is not depreciated as it is deemed to have an indefinite useful life. Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve.

(iii) Investment Property –

Fair value Model – after initial recognition, all investment property shall be measured at fair value, which reflects market conditions at the reporting date. Gains or Losses arising from changes in the fair value of investment property are included in

the statement of financial performance in the year in which they arise.

(iv) Intangible Assets –

Cost Model – assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset.

(v) Heritage Assets excluding land and buildings –

Cost Model – these assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated impairment losses. These heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(vi) Land and buildings Heritage Assets –

Revaluation Model – Heritage assets are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition.

(vii) Biological assets

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

(viii) Inventory property

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the Municipality's asset register or statement of financial position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for –

- (aa) Distribution at no charge or for a nominal charge, or
- (bb) Consumption in the production process of goods to be distributed at no charge or for a nominal charge:

Then they shall be measured at the lower of cost and current replacement cost.

### **5.7.3 Responsibilities**

- (a) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Managers shall ensure that all assets under their control are correctly capitalised.
- (c) Every Executive Manager shall ensure that revaluations are conducted where applicable to assets under their control.

## **5.8 DEPRECIATION AND ESTIMATED USEFUL LIVES**

### **5.8.1 Definition and Rules**

- (a) Depreciation
  - (i) Depreciation is the systematic allocation of the depreciation amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.

- (ii) Land, servitudes and heritage assets are considered to have unlimited life and are not depreciated.

(b) Useful life

- (i) Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.
- (ii) The expected useful life of a depreciable asset is the total expected period (or number of production units) for which an asset can be used economically by the Municipality. The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.
- (iii) Although various guidelines exist that includes directives for useful lives of assets, GRAP requires municipalities to use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

(c) Residual value

- (i) The residual value is the estimated amount that the Municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- (ii) The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the

depreciable amount. The reason is that the majority of municipal assets are hardly ever recovered through sale i.e. disposed of for amounts that are significant, but rather recovered through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

- (iii) Assets typically not sold by the Municipality are land, buildings, other structures and facilities, and infrastructure assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

(d) Depreciation Method

Depreciation of assets is applied at the component level. A range of depreciation methods exist and can be selected to model consumption of service potential or economic benefit (for example the straight line method , diminishing amount method, percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of the future economic benefits or services potential, and should be reviewed annually where there has been a change in the pattern of consumption.

(e) Remaining useful life



- (i) The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.
- (ii) The remaining useful lives of all depreciable assets at initial recognition are the same as the expected useful lives.

(f) Annual review of remaining useful life

The remaining useful lives of depreciable PPE and Intangible assets are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in Section 10.8 of this policy). Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

(g) Depreciation charge

Depreciation starts once an asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and ceases when it is de-recognised. Depreciation is initially calculated from the day when an asset item is acquired or - in the case of construction works and plants and machinery - the day when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, until the end of the calendar month concerned. Depreciation charges are calculated monthly.

(h) Carrying Amount

The carrying amount is the cost price/fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

(i) Spares

The depreciation of capital spares commences immediately when it is available and in the location and condition necessary for it to be capable of operating in the manner intended by management. The depreciation continues once they are placed in services, or subsequently removed from services.

(j) Finance Lease

Depreciation assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with GRAP 17 on Property, Plant and Equipment. If there is no reasonable certainty that the Municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and the asset's useful life.

### **5.8.2 Policy Statement**

(a) Depreciation

- (i) All PPE except land shall be depreciated over their remaining useful lives. Intangible assets (except servitudes) will be amortised over their remaining useful life.
- (ii) The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other PPE.

- (iii) Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the item of PPE is used or consumed.

(b) Useful lives

- (i) The expected useful lives applied at DM are indicated in ***Annexure A***. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions and operating conditions), the life-cycle strategy of the Municipality, potential technical obsolescence, and legal limits on the use of the assets.
- (ii) The remaining useful lives of depreciable PPE and Intangible assets are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments. Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.
- (iii) During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets.

(c) Depreciation method

The method of depreciation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases unless determined otherwise.

(d) Residual values

- (i) Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles and earthmoving equipment. The basis of the residual value estimates shall be determined by the results of past sales of these types of assets at auctions when it reaches the end of its useful lives.
- (ii) The residual value of assets shall be reviewed annually at reporting date, and amended if significantly different from values previously determined. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### **5.8.3 Responsibilities**

- (a) Every Executive Manager shall ensure that a budgetary provision is made for the depreciation of assets under their control in the ensuing financial year, in consultation with the CFO.
- (b) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall assign a useful operating life to each depreciable asset item recorded on the Municipality's asset register. In determining such a useful life, the useful lives set out in the **Annexure A** to this document shall be used as a guideline.

- (c) In the case of an asset item which is not listed in **Annexure A**, the Manager: Assets and Insurance Management shall determine a useful operating life, if necessary in consultation with the Executive Manager controlling or using the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.
- (d) The CFO shall ensure that the expected useful lives stated in **Annexure A** are applied.
- (e) Depreciation rates (expected useful lives) used shall be included in the approved accounting policy.
- (f) Every Executive Manager shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such item attain their useful operating lives.
- (g) The CFO shall indicate an annual date for the review of the remaining useful life of assets under the control of the respective Executive Managers.
- (h) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall ensure that the useful lives of all depreciable assets in the asset register are annually reviewed.
- (i) Every Executive Manager shall ensure that the expected useful lives of all assets under their control are annually reviewed.
- (j) The Manager: Assets and Insurance Management shall annually review the residual values of assets that are normally disposed of by selling them, and which reach selling prices that are material.
- (k) The Manager: Assets and Insurance Management shall ensure that depreciation calculations are correctly applied and posted in the general ledger.

- (l) The Manager: Assets and Insurance Management shall ensure that depreciation charges are debited on a regular basis (preferably monthly) and that the asset register is reconciled with the general ledger.

## **5.9 IMPAIRMENT**

### **5.9.1 *Definition and Rules***

#### **(a) Impairment**

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the assets future economic benefits or service potential through depreciation.

#### **(b) Indications of impairment**

- (i) The Municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators –
  - (aa) External Sources of Information –
    - (i) Decline or cessation in demand;
    - (ii) Changes in the technological. Legal or government policy environment;
    - (iii) The carrying amount on the net assets of the entity is more than its market capitalisation; or
    - (iv) Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an assets value

in use and decrease the assets recoverable amount materially.

- (bb) A halt in construction could indicate impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.
- (bb) Internal Sources of Information –
  - (i) Evidence of ~~P~~-physical ~~D~~ damage;
  - (ii) Evidence of obsolescence;
  - (iii) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected date, and reassessing the useful life of an asset as finite rather than indefinite;
  - (iv) Cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
  - (v) The actual net cash flow or operating profit or loss flowing from an asset ate significantly worse than those budgeted;
  - (vi) A significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss; flowing from the asset;
  - (vii) Operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future; or
  - (viii) Other indications, such as loss of market value.

(c) Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been

delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postpones to a specific future date, the project may be treated as work in progress and is not considered as halted.

(d) Intangible assets

The Municipality must test all intangible assets not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period it is performed at the same time every year.

(e) Significant and Enduring Nature

The Municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the Municipality must estimate the recoverable services amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

(f) Impairment loss

(i) An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

(ii) An impairment loss of a cash-generating unit (smallest group of assets that generate cash flows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable



amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

(g) Non-cash generating units

Non-cash-generating units are those assets (or group of assets) that are not held the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit.

(h) Cash-generating unit

Cash-generating units are those assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

(i) Judgement

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating or a cash-generating asset. Judgement is needed in these circumstances.

(j) Recognition of impairment

- (i) The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the assets revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- (ii) When no future economic benefit is likely to flow ab asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Standard of Financial Performance as a “Loss on Disposal of Asset”.
- (iii) In the event of compensation received for damage to an item of immovable PPE, the compensation is considered as the assets ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/de-recognised.

(k) Reversing the impairment loss

The Municipality must assess each year from the source of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increase to its recoverable amount (providing that it does not exceed the carrying amount that would have determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

### **5.9.2 Policy Statement**

- (a) Assets shall be reviewed annually for impairment indicators. If any of the indicators are present, the Municipality shall make an estimate of the recoverable service amount.
- (b) Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.
- (c) In this regard, the Municipality considers itself an entity whose primary objective is to provide goods and services for community or social benefits, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with view to support the primary objective rather than for financial return to equity holders. Consequently the Municipality adopts the impairment treatment for non-cash generating units in the impairment of its PPE, Heritage assets and Intangible assets.
- (d) Impairment of assets shall be recognised as an expense in the Statement of Financial Performance when it occurs, unless it reverses a previous revaluation in which case it shall be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as an income.

### **5.9.3 Responsibilities**

- (a) The CFO shall indicate an annual date for the review of any impairment that may have occurred on assets under the control of the respective Executive Managers.
- (b) The Executive Managers shall review any impairment on the assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The

Executive Managers shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairment that needs to be recognised on such assets.

- (c) The Executive Managers should evaluate all assets for impairment, taking into consideration any discussions with the Manager: Assets and Insurance Management and other Operating Managers.
- (d) The Manager: Assets and Insurance Management shall ensure that the asset register is updated with the information received, relating to the impairment, from the financial system where the impairment journal has been processed.

## **5.10 DE-RECOGNITION**

### **5.10.1 *Definition and rules***

- (a) Alienation / Disposal
  - (i) Alienation / Disposal (alienation) is the process of disowning assets by transferring ownership or title to another owner, which is external to the Municipality. The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets.
  - (ii) Government Gazette no 31346 sets out the regulations regarding municipal asset transferred and disposals, for example type of assets that need approval to be disposed or transferred, timeframes and Council approval.
  - (iii) Disposal of assets should be approved by Council and where applicable at market-related value (or at auction / per tender in the case of movable assets). Section 14 of the MFMA prohibits

the disposal of assets needed to provide the minimum level of basic municipal services.

- (iv) Disposal of assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

(b) De-recognition

- (i) Assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. An asset will remain in the asset register for as long as it is in physical existence or is yet to be written off.
- (ii) The profit or loss on disposal (difference between carrying amount of the asset and the net disposal proceeds [or cost of de-commissioning and/or disposal of the asset]) shall be included in the statement of financial performance when the item is derecognised.

### **5.10.2 Policy Statement**

- (a) The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.
- (b) Assets for which no future economic benefits or service potential are expected shall be identified and method of disposal and the association costs or income considered by Council, taking into account SCM regulations and the Municipality's policy on disposal of assets. The carrying amount of the asset shall be de-recognised and the profit

or loss on disposal shall be included in the statement of financial performance.

(c) External Transfer of assets

- (i) When assets are transferred to other Government Departments or municipalities, a document with specific authorisation should be tied to the asset to ensure the validity of the transfer.
- (ii) The document should also include –
  - (aa) Asset description;
  - (bb) Cost of the asset;
  - (cc) Date of acquisition;
  - (dd) Unique asset number;
  - (ee) Effective date of transfer;
  - (ff) Quantity; and
  - (gg) Authorisation by both transferor and transferee.

### **5.10.3 Responsibilities**

- (a) Assets shall be disposed of (alienated) only on the recommendation of the Executive Manager of the department controlling the asset.
- (b) If the value of an item of PPE or intangible assets has been reduced to such an extent that it has no or a negligible further useful operating life or value such item shall be fully depreciated in the financial year in which such decrease in value occurs.
- (c) Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the asset register.

- (d) Every Executive Manager shall report to the CFO on 31 October and 30 April of each financial year on assets which such Executive Manager wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services.
- (e) The Manager: Assets and Insurance Management shall report to the CFO (or delegated official) on 31 July of each financial year on lost or stolen assets, i.e. assets identified through insurance claims or movable assets not verified during annual verification and not located after follow-up with the asset custodian, and after thorough investigation of incidents.
- (f) The CFO (or delegated official) shall consolidate all such reports, and shall promptly make a submission to the Municipal Manager or Council on the assets to be de-recognised, the proposed method of disposal, and the estimated cost or income from such disposal.
- (g) Council shall delegate to the Municipal Manager the authority to approve the alienation of any movable asset with a carrying value less than R 50,000 (fifty thousand rand). Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R 50,000 (fifty thousand rand) takes place in compliance with Section 14 of the MFMA.
- (h) Council shall consider the submission for approval or, in cases where the carrying value of movable assets do not exceed R 50,000, the Municipal Manager shall consider the submission and make recommendation to the Council for adoption.
- (i) Assets that are replaced in the normal course of the life-cycle renewal should be de-recognised and removed from the asset register. In this regard, Executive Managers shall provide details to the Manager: Assets and Insurance Management (or delegated official) in order to accurately identify in the asset register the assets replaced.

- (j) The Manager: Assets and Insurance Management shall de-recognise all assets disposed of (including assets replaced and written off) and update the asset register.
- (k) In every instance where a not fully depreciated asset item is written off, the Manager: Assets and Insurance Management shall debit to such department or vote, as additional depreciation expenses, the full carrying value of the item concerned.

## **5.11 INSURANCE**

### **5.11.1 *Definition and rules***

- (a) Insurance provides selected coverage for the accidental loss of asset value.
- (b) Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The Municipality can however elect to insure certain infrastructure risks.
- (c) The Municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the department or votes after having received a list of assets and insurable values of all relevant assets from the Executive Managers concerned.

### **5.11.2 *Policy Statement***

- (a) Material movable and immovable assets (in value and substance) shall be insured at least against destruction, fire and theft, and all municipal buildings shall be insured at least against fire and allied perils.



- (b) All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Company / Brokers.
- (c) Third-party (insurance) pay-outs shall be treated as revenue when the amount is certain and may not be offset against the cost of replacing the item. The carrying value of items lost, stolen or damaged beyond repair shall be treated as impairment or disposal against the relevant department or vote. The full cost of the replacement item shall then be capitalised.

### **5.11.3 Responsibilities**

- (a) The CFO (or delegated official) shall ensure that material movable and immovable assets are insured at least against fire and theft, and that municipal buildings are insured at least against fire and allied perils.
- (b) Each Executive Manager shall before 31 May of each year verify or update the schedule of insurable risks and insurable assets under their control (and any other information deemed necessary).
- (c) Should circumstances change during the year amendments, additions or deletions should be made to the insurance portfolio with the Insurance Company/Insurance Broker.
- (d) It shall be the duty of each Executive Manager to notify the CFO (or delegated official) without delay of any new insurable risk or of any alteration in an existing insurable risk which has arisen in connection with his/her department.
- (e) On the occurrence of any event giving rise or likely to give rise to a claim by or against the Council or against its insurers, the Executive Manager of the department concerned shall ensure that the CFO (or delegated official) is notified of that event.

- (f) The CFO (or delegated official) shall immediately notify the Council's insurer of any claim by or against the Council or against its insurers.
- (g) It is the responsibility of the relevant Executive Manager to ensure that all documents / information for the completion of the claim is forwarded to the CFO (or delegated official) for submission to Council's insurance brokers.

## **5.12 FUNDING SOURCES**

### **5.12.1 *Definition and rules***

- (a) The MFMA provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The Municipality utilise any of the following sources to acquire and / or purchase assets –
  - (i) Grants, Subsidies and Public Contributions;
  - (ii) Revenue Contributions;
  - (iii) Capital Replacement Reserve (CRR);
  - (iv) Self-Insurance Reserve (SIR);
  - (v) Cash Surplus; and / or
  - (vi) External / Donor Funds.

### **5.12.2 *Policy Statement***

- (a) The annual capital budget shall be funded and the sources of finance disclosed as part of the Council's budget.
- (b) It is the policy of Council to maintain and annually make contributions to a CRR to ensure that the CRR remains a capital funding source for

the future. The Municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The IDP, the Municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

### **5.12.3 Responsibilities**

- (a) The CFO shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.
- (b) The CFO shall thereafter ensure that in the case of depreciable assets an amount equal to the annual depreciation expenses of the items concerned are transferred.
- (c) The CFO shall ensure that in respect of all assets financed from the CRR, whenever an asset (including land) is sold by the Municipality, the proceeds on the sale of the assets are transferred from the Accumulated Surplus to the CRR via the statement of changes in net assets, and whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus.
- (d) The CFO shall annually determine the amount to be transferred from the Accumulated Surplus to the Self-Insurance Reserve.

## **6. POLICY FOR ASSET SAFEGUARDING**

### **6.1 *Definitions and rules***

- (a) The Municipality applies control and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.
- (b) The existence of assets is physically verified from time-to-time, and measures adopted to control their use. Budgetary constraints may however restrict the measures adopted.
- (c) The Municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

### **6.2 *Policy Statement***

- (a) Asset safeguarding directives and procedures shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the Municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.
- (b) The existence, condition and location of these assets shall be verified annually (including a condition assessment to identify indicators of impairment and determine the impact on an asset's remaining useful life).
- (c) No asset may be moved without the prior consent of the respective Executive Manager and notification of the Manager: Assets and Insurance Management.

### **6.3     *Responsibilities***

- (a)     The Manager: Assets and Insurance Management shall prepare and submit to the CFO procedures to be implemented and standard forms to be utilised for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting of damage, in consultation with the Executive Managers.
- (b)     Executive Managers shall enforce the application of the procedures for controlling and safeguarding the Municipality's assets, including the movement of assets and confirmation of verified assets during annual verification, as prescribed by the CFO.
- (c)     It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area.
- (d)     Executive Managers shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- (e)     Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Executive Manager.
- (f)     The Municipal Manager must report criminal activities to the South African Police Services.

## ANNEXURES

### ANNEXURE A: ASSET CLASSIFICATION

PROPERTY, PLANT AND EQUIPMENT			
PPE - INFRASTRUCTURE ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
ELECTRICITY	WORK IN PROGRESS		0
ELECTRICITY	HIGH VOLTAGE	HV OVERHEAD LINE	50
ELECTRICITY	HIGH VOLTAGE	HV UNDERGROUND CABLE	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	AIS ISOLATOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	AUXILIARY TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	BATTERY TRIPPING UNIT	10
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CAPACITOR BANK	15
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CIRCUIT BREAKER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CURRENT TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	EARTH SWITCH	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	GIS BUS DUCTING	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	HV BUSBAR	60
ELECTRICITY	HIGH VOLTAGE SUBSTATION	INDOOR GIS BAYS	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	HV SWITCHGEAR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	NEUTRAL EARTHING COMPONENT	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	NEUTRAL EARTHING RESISTOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	ELECTRICAL PLANT	35
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR PANTO	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	PANELS	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	POWER TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	PROTECTION PANEL	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	RING MAIN UNIT	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	RIPPLE RELAYS	35
ELECTRICITY	HIGH VOLTAGE SUBSTATION	SURGE ARRESTOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	ELECTRICAL PLANT	30
ELECTRICITY	HIGH VOLTAGE SUBSTATION	VOLTAGE TRANSFORMER	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	VOLTAGE TRANSFORMER	50
ELECTRICITY	LOW VOLTAGE	LV OVERHEAD LINE	50
ELECTRICITY	LOW VOLTAGE	LV UNDERGROUND CABLE	50
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION CABLE	50

ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION POINT	50
ELECTRICITY	LOW VOLTAGE	HIGH MAST LIGHTING	20
ELECTRICITY	LOW VOLTAGE	PILLAR BOX	40
ELECTRICITY	LOW VOLTAGE	STREET LIGHT CABLE	50
ELECTRICITY	MEDIUM VOLTAGE	AUTO RECLOSER	45
ELECTRICITY	MEDIUM VOLTAGE	CAPACITOR	15
ELECTRICITY	MEDIUM VOLTAGE	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE	METERING UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	MINI SUBSTATION	50
ELECTRICITY	MEDIUM VOLTAGE	MV OVERHEAD LINE	50
ELECTRICITY	MEDIUM VOLTAGE	MV UNDERGROUND CABLE	50
ELECTRICITY	MEDIUM VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	SECTIONALIZER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	AUTO RECLOSER	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	AUXILIARY TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	BATTERY TRIPPING UNIT	10
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	CIRCUIT BREAKER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	MV SWITCHGEAR	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	MV SWITCHGEAR	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	NEUTRAL EARTHING RESISTOR	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	OTHER ASSETS	15-50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	POWER TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	PROTECTION PANEL	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	OTHER ASSETS	30
ELECTRICITY	LOW VOLTAGE	STREET LIGHT	25
ELECTRICITY	HIGH VOLTAGE	METERING UNIT	45
ELECTRICITY	HIGH VOLTAGE	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION CABLE	50
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION POINT	50
ELECTRICITY	LOW VOLTAGE	STREET LIGHT CABLE	50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
WATER SUPPLY	WORK IN PROGRESS		0
WATER SUPPLY	WATER TREATMENT WORKS	MECHANICAL PLANT	1-50
WATER SUPPLY	BOREHOLE	CIVIL STRUCTURE	5-100
WATER SUPPLY	BOREHOLE	ELECTRICAL PLANT	5-50
WATER SUPPLY	BOREHOLE	MECHANICAL PLANT	15-30
WATER SUPPLY	BOREHOLE	OTHER ASSETS	5-50
WATER SUPPLY	BULK WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	BULK WATER PIPELINE	ELECTRICAL PLANT	15

WATER SUPPLY	BULK WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	BULK WATER PIPELINE	PIPES	50-100
WATER SUPPLY	CONSUMER CONNECTIONS	ELECTRICAL PLANT	50
WATER SUPPLY	CONSUMER CONNECTIONS	OTHER ASSETS	50
WATER SUPPLY	DAM	CIVIL STRUCTURE	5-100
WATER SUPPLY	DAM	ELECTRICAL PLANT	5-50
WATER SUPPLY	DAM	MECHANICAL PLANT	1-50
WATER SUPPLY	DAM	OTHER ASSETS	5-50
WATER SUPPLY	PUMP STATION	CIVIL STRUCTURE	5-100
WATER SUPPLY	PUMP STATION	ELECTRICAL PLANT	5-50
WATER SUPPLY	PUMP STATION	MECHANICAL PLANT	1-50
WATER SUPPLY	PUMP STATION	OTHER ASSETS	5-50
WATER SUPPLY	RESERVOIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	RESERVOIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	RESERVOIR	MECHANICAL PLANT	1-50
WATER SUPPLY	RESERVOIR	OTHER ASSETS	5-50
WATER SUPPLY	SPRING	CIVIL STRUCTURE	5-100
WATER SUPPLY	SPRING	ELECTRICAL PLANT	5-50
WATER SUPPLY	SPRING	MECHANICAL PLANT	1-50
WATER SUPPLY	SPRING	OTHER ASSETS	5-50
WATER SUPPLY	WATER CHANNEL	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER CHANNEL	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER CHANNEL	MECHANICAL PLANT	15
WATER SUPPLY	WATER CHANNEL	OTHER ASSETS	5-50
WATER SUPPLY	WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	WATER PIPELINE	ELECTRICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	PIPES	50-100
WATER SUPPLY	WATER TREATMENT WORKS	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER TREATMENT WORKS	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER TREATMENT WORKS	OTHER ASSETS	5-50
WATER SUPPLY	WEIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	WEIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	WEIR	MECHANICAL PLANT	15-50
WATER SUPPLY	WEIR	OTHER ASSETS	5-50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
SANITATION	WORK IN PROGRESS		0
SANITATION	BULK SEWER PIPELINE	CIVIL STRUCTURE	20-50
SANITATION	BULK SEWER PIPELINE	ELECTRICAL PLANT	15
SANITATION	BULK SEWER PIPELINE	MECHANICAL PLANT	15
SANITATION	BULK SEWER PIPELINE	PIPES	50-100
SANITATION	PUMP STATION	CIVIL STRUCTURE	5-100
SANITATION	PUMP STATION	ELECTRICAL PLANT	5-50



SANITATION	PUMP STATION	MECHANICAL PLANT	1-50
SANITATION	PUMP STATION	OTHER ASSETS	5-50
SANITATION	SEWAGE TREATMENT WORKS	CIVIL STRUCTURE	5-100
SANITATION	SEWAGE TREATMENT WORKS	ELECTRICAL PLANT	5-50
SANITATION	SEWAGE TREATMENT WORKS	MECHANICAL PLANT	1-50
SANITATION	SEWAGE TREATMENT WORKS	OTHER ASSETS	5-50
SANITATION	SEWER PIPELINE	CIVIL STRUCTURE	20-50
SANITATION	SEWER PIPELINE	ELECTRICAL PLANT	15
SANITATION	SEWER PIPELINE	MECHANICAL PLANT	15
SANITATION	SEWER PIPELINE	PIPES	50-100
SANITATION	CONSUMER CONNECTIONS	OTHER ASSETS	50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
ROAD TRANSPORT	WORK IN PROGRESS		0
ROAD TRANSPORT	FOOTPATHS	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	PARKING BAYS	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	ROAD	CIVIL STRUCTURE	7-50
ROAD TRANSPORT	ROAD	OTHER ASSETS	10-50
ROAD TRANSPORT	STRUCTURE	CIVIL STRUCTURE	20-100
ROAD TRANSPORT	TAXI RANK	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	TAXI RANK	OTHER ASSETS	10-50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
STORM WATER	WORK IN PROGRESS		0
STORM WATER	ATTENUATION POND	CIVIL STRUCTURE	20-100
STORM WATER	ATTENUATION POND	OTHER ASSETS	50
STORM WATER	CHANNEL	CIVIL STRUCTURE	5-100
STORM WATER	CHANNEL	OTHER ASSETS	50
STORM WATER	CULVERT	CIVIL STRUCTURE	20-50
STORM WATER	EMBANKMENT	CIVIL STRUCTURE	20-100
STORM WATER	EMBANKMENT	MECHANICAL PLANT	15
STORM WATER	EROSION PROTECTION	CIVIL STRUCTURE	20-100
STORM WATER	EROSION PROTECTION	OTHER ASSETS	50
STORM WATER	STORMWATER PIPELINE	CIVIL STRUCTURE	30-50
STORM WATER	STORMWATER PIPELINE	ELECTRICAL PLANT	15
STORM WATER	STORMWATER PIPELINE	MECHANICAL PLANT	15
STORM WATER	STORMWATER PIPELINE	PIPES	50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
SOLID WASTE DISPOSAL	WORK IN PROGRESS		0
SOLID WASTE DISPOSAL	LANDFILL	CIVIL STRUCTURE	5-100
SOLID WASTE DISPOSAL	LANDFILL	ELECTRICAL PLANT	5-50
SOLID WASTE DISPOSAL	LANDFILL	MECHANICAL PLANT	15-30
SOLID WASTE DISPOSAL	LANDFILL	OTHER ASSETS	5-50
SOLID WASTE DISPOSAL	TRANSFER STATIONS	CIVIL STRUCTURE	5-100

SOLID WASTE DISPOSAL	TRANSFER STATIONS	ELECTRICAL PLANT	5-50
SOLID WASTE DISPOSAL	TRANSFER STATIONS	MECHANICAL PLANT	30
SOLID WASTE DISPOSAL	TRANSFER STATIONS	OTHER ASSETS	5-50
<b>PPE - LAND</b>			
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
LAND VACANT			0
LAND WITH IMPROVEMENTS			0
<b>PPE - BUILDINGS, STRUCTURES AND FACILITIES</b>			
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
BUILDINGS	WORK IN PROGRESS		0
BUILDINGS	OPERATIONAL BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	OPERATIONAL BUILDINGS	OTHER ASSETS	10-50
BUILDINGS	COMMUNITY BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	COMMUNITY BUILDINGS	OTHER ASSETS	10-50
BUILDINGS	OTHER BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	OTHER BUILDINGS	OTHER ASSETS	10-50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
RECREATIONAL AND SPORTS FACILITIES	WORK IN PROGRESS		0
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	CIVIL STRUCTURE	15-100
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	ELECTRICAL PLANT	5-50
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	MECHANICAL PLANT	15
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	OTHER ASSETS	5-50
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	CIVIL STRUCTURE	15-100
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	ELECTRICAL PLANT	5-50
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	MECHANICAL PLANT	15
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	OTHER ASSETS	5-50
PARKS, GARDENS AND CEMETERIES	WORK IN PROGRESS		0
PARKS, GARDENS AND CEMETERIES	CEMETERIES	CIVIL STRUCTURE	20-100
PARKS, GARDENS AND CEMETERIES	CEMETERIES	OTHER ASSETS	10-50
PARKS, GARDENS AND CEMETERIES	PARKS	CIVIL STRUCTURE	20-100
PARKS, GARDENS AND CEMETERIES	PARKS	ELECTRICAL PLANT	15-40
PARKS, GARDENS AND CEMETERIES	PARKS	OTHER ASSETS	5-50
PARKS, GARDENS AND CEMETERIES	NURSERIES AND GARDENS	OTHER ASSETS	5-50
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
HOUSING ASSETS	WORK IN PROGRESS		0
HOUSING ASSETS	HOUSES		50
HOUSING ASSETS	FLATS		50
<b>PPE - OTHER ASSETS</b>			
<b>HIERARCHY LEVEL 1</b>	<b>HIERARCHY LEVEL 2</b>	<b>HIERARCHY LEVEL 3</b>	<b>ESTIMATED USEFUL LIFE</b>
TRANSPORT ASSETS (MOTOR VEHICLES)	CONSTRUCTION, EARTHMOVING AND MAINTENANCE VEHICLES		15-20

TRANSPORT ASSETS (MOTOR VEHICLES)	EMERGENCY VEHICLES		7-20
TRANSPORT ASSETS (MOTOR VEHICLES)	LDVS AND 4X4S		7
TRANSPORT ASSETS (MOTOR VEHICLES)	MOTORCYCLES AND BICYCLES		5-7
TRANSPORT ASSETS (MOTOR VEHICLES)	PASSENGER VEHICLES		7
TRANSPORT ASSETS (MOTOR VEHICLES)	TRACTORS		15-20
TRANSPORT ASSETS (MOTOR VEHICLES)	TRAILERS AND ACCESSORIES		10
TRANSPORT ASSETS (MOTOR VEHICLES)	TRUCKS AND BUSES		15
TRANSPORT ASSETS (MOTOR VEHICLES)	VEHICLE ACCESSORIES		7
TRANSPORT ASSETS (MOTOR VEHICLES)	WATERCRAFT		7-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
OFFICE EQUIPMENT	AIR CONDITIONERS INDIVIDUAL FIXED AND MOVABLE		10
OFFICE EQUIPMENT	DOMESTIC EQUIPMENT		5-7
OFFICE EQUIPMENT	OFFICE MACHINES		5
OFFICE EQUIPMENT	OTHER OFFICE EQUIPMENT		5-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
COMPUTER EQUIPMENT	COMPUTER HARDWARE INCLUDING OPERATING SYSTEMS		3-5
COMPUTER EQUIPMENT	COMPUTER NETWORKS		10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
MACHINERY AND EQUIPMENT	AUDIOVISUAL AND PHOTOGRAPHIC EQUIPMENT		5
MACHINERY AND EQUIPMENT	COMPRESSORS, GENERATORS AND ALLIED EQUIPMENT		7
MACHINERY AND EQUIPMENT	FIRE AND EMERGENCY EQUIPMENT		7
MACHINERY AND EQUIPMENT	GARDENING EQUIPMENT		5
MACHINERY AND EQUIPMENT	LABORATORY EQUIPMENT		5
MACHINERY AND EQUIPMENT	LAW ENFORCEMENT EQUIPMENT		5
MACHINERY AND EQUIPMENT	MUSICAL INSTRUMENTS		15
MACHINERY AND EQUIPMENT	RADIO EQUIPMENT		5
MACHINERY AND EQUIPMENT	SECURITY EQUIPMENT AND SYSTEMS		10
MACHINERY AND EQUIPMENT	SPORTS AND RECREATIONAL EQUIPMENT		10
MACHINERY AND EQUIPMENT	TELECOMMUNICATION EQUIPMENT		10
MACHINERY AND EQUIPMENT	WORKSHOP EQUIPMENT AND LOOSE TOOLS		7
MACHINERY AND EQUIPMENT	CONTAINERS AND WENDYHOUSES		10
MACHINERY AND EQUIPMENT	OTHER MACHINERY AND EQUIPMENT		7-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
FURNITURE AND FITTINGS	CABINETS AND CUPBOARDS		7
FURNITURE AND FITTINGS	CHAIRS AND COUCHES		7
FURNITURE AND FITTINGS	DESKS AND TABLES		7
FURNITURE AND FITTINGS	DOMESTIC FURNITURE		7
FURNITURE AND FITTINGS	PAINTINGS, SCULPTURES AND ORNAMENTS		7
FURNITURE AND FITTINGS	SHELVING AND BOOKCASES		7
FURNITURE AND FITTINGS	OTHER FURNITURE AND FITTINGS		7

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BINS AND CONTAINERS	BINS AND CONTAINERS		5-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BOOKS & MANUALS	BOOKS		3-5
BOOKS & MANUALS	MANUALS		3-5
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
LEASED ASSETS	LEASED MACHINERY AND EQUIPMENT		AS PER AGREEMENT
INTANGIBLE ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
CAPITALISED DEVELOPMENT COST	CAPITALISED DEVELOPMENT COST		3-10
COMPUTERS SOFTWARE AND SYSTEMS	COMPUTER SOFTWARE		3-5
COMPUTERS SOFTWARE AND SYSTEMS	COMPUTER SYSTEMS		5-10
PLANS AND DESIGNS	MASTER PLANS		5-10
LICENCES AND RIGHTS	SERVITUDES		0
LICENCES AND RIGHTS	RIGHTS		AS PER AGREEMENT
INVESTMENT PROPERTY			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
INVESTMENT PROPERTY	COMMERCIAL PROPERTY		0
INVESTMENT PROPERTY	RESIDENTIAL PROPERTY		0
INVESTMENT PROPERTY	LAND HELD FOR APPRECIATION OR DEVELOPMENT PURPOSES		0
INVESTMENT PROPERTY	LAND WITH UNDETERMINED USE		0
HERITAGE ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
CONSERVATION AREAS AND NATURE RESERVES	CONSERVATION AREAS		0
CONSERVATION AREAS AND NATURE RESERVES	NATURE RESERVES		0
HISTORICAL BUILDINGS AND SITES	HISTORICAL BUILDINGS		0
HISTORICAL BUILDINGS AND SITES	HISTORICAL SITES		0
STATUES, MONUMENTS AND MEMORIALS	MEMORIALS		0
STATUES, MONUMENTS AND MEMORIALS	STATUES / MONUMENTS		0
WORKS OF ART, REGALIA AND COLLECTIONS	REGALIA		0
WORKS OF ART, REGALIA AND COLLECTIONS	EXHIBITS / COLLECTIONS		0
WORKS OF ART, REGALIA AND COLLECTIONS	WORKS OF ART		0
BIOLOGICAL ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BIOLOGICAL ASSETS	BIOLOGICAL ASSETS		0

**ANNEXURE B: ASSET TYPES NOT CAPITALISED**

- Kettles
- Two-plate stoves
- Desktop fans
- Element heaters
- Fan heaters
- Stationery equipment, e.g. punches (not heavy duty), staplers (not heavy duty), etcetera
- Mattresses
- Other, as may be determined by management

**ANNEXURE C: ASSET TYPES LISTED IN SUB-REGISTERS**

- Water meters
- Electricity meters
- Manholes
- Telephones
- Air conditioners
- Workshop equipment and loose tools e.g. angle grinders, drills, jigsaws, etcetera
- Toolbox items e.g. hall chairs
- Other, as may be determined by management



*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **INSURANCE MANAGEMENT POLICY**

**1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## CONTENTS

<b>PREAMBLE .....</b>	<b>3</b>
<b>ABBREVIATIONS .....</b>	<b>4</b>
<b>1. PURPOSE OF THIS DOCUMENT .....</b>	<b>5</b>
<b>2. BACKGROUND .....</b>	<b>5</b>
<b>3. POLICY FRAMEWORK .....</b>	<b>6</b>
<b>3.1. POLICY OBJECTIVE .....</b>	<b>6</b>
<b>3.2. POLICY FORMAT .....</b>	<b>6</b>
<b>3.3. RELATIONSHIP WITH OTHER POLICIES .....</b>	<b>6</b>
<b>3.4. APPROVAL AND EFFECTIVE DATE .....</b>	<b>7</b>
<b>3.5. POLICY IMPLEMENTATION .....</b>	<b>7</b>
<b>3.6. POLICY AMENDMENT .....</b>	<b>7</b>
<b>4. POLICY FOR INSURANCE MANAGEMENT .....</b>	<b>8</b>
<b>4.1 DEFINITIONS AND RULES .....</b>	<b>8</b>
<b>4.2 POLICY STATEMENT .....</b>	<b>9</b>
<b>4.3 RESPONSIBILITIES .....</b>	<b>11</b>

## **PREAMBLE**

Whereas it is required of the accounting officer to take all reasonable steps to ensure that the Council has and implements crucial policies for effective financial and risk management.

And whereas the safeguarding of assets and the protection of Council against liabilities is very important and forms part of a proper assets management system as prescribed by Section 63 and needs annual revision in terms of Section 24(2)(c)(v) of the Municipal Finance Management Act 56 of 2003.

Now therefore the Municipal Council of the Drakenstein Municipality adopts the following Policy for Insurance Management.



## **ABBREVIATIONS**

CFO	Chief Financial Officer
DM	Drakenstein Municipality
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MM	Municipal Manager (i.e. Accounting Officer)
SIR	Self Insurance Reserve

## **1. PURPOSE OF THIS DOCUMENT**

- 1.1 This document indicates the policy of Drakenstein Municipality (DM) for insuring of municipal assets, and for insuring the municipality, its employees and Councillors against public liability claims and other losses.

## **2. BACKGROUND**

- 2.1 Since 2004, when the Municipal Finance Management Act No 56 of 2003 (MFMA) was promulgated municipalities have been required to align the planning, management, reporting and auditing of their finances in accordance with the strict requirements of the MFMA and related legislation.
- 2.2 Insurance brokers active in the municipal environment over years prepared a standard for local authority insurance that takes all circumstances related to a municipality into account. There are however aspects in addition to this standard that the Council can decide on policy in order to reduce premium without an increase in risk or where the Council is prepared to accept risk because of a very slim probability that an event might occur.
- 2.3 Responsible financial management of any municipality requires that assets are properly managed. Municipalities have large numbers of assets, including equipment, plant and machinery. As trustees of public funds, the Council must ensure that municipal assets are adequately insured at all times. The insurance should in addition protect the municipality, Councillors and employees against public liability claims and other losses.

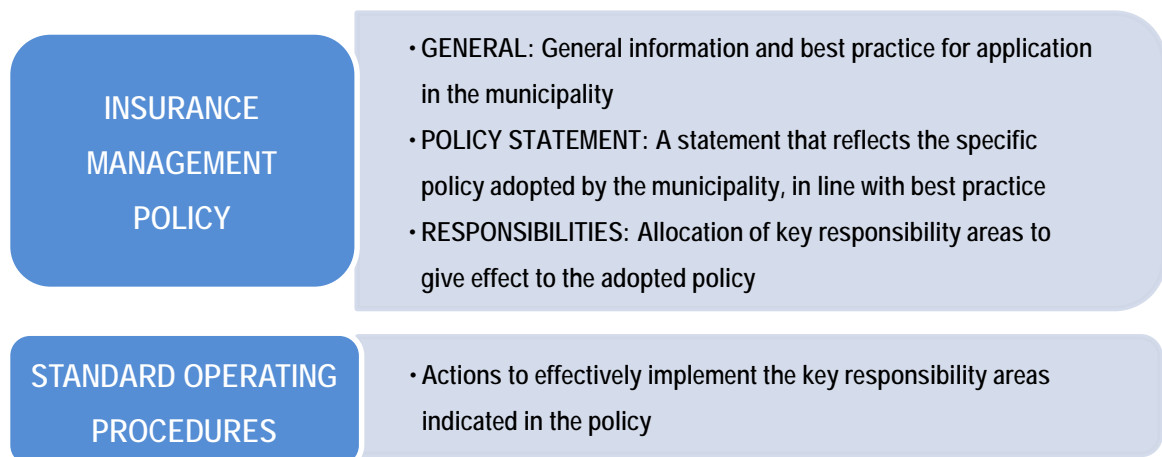
### 3. POLICY FRAMEWORK

#### 3.1 POLICY OBJECTIVE

3.1.1 The objective of this policy is to ensure that DM's assets, councillors and employees are insured adequately and economically at all times. Detailed procedures, to ensure that management and employees within the municipality understand their respective responsibilities and duties, are provided in a separate document.

#### 3.2 POLICY FORMAT

3.2.1 The figure below gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures that may arise in terms of this policy:



#### 3.3 RELATIONSHIP WITH OTHER POLICIES

3.3.1 This policy, once effective, needs to be read in conjunction with other relevant adopted policies of the municipality, including the following –

- (a) Delegation of Powers (Delegations register) - Identifying the processes surrounding the establishment of delegated authority.

- (b) SCM Policy - Regulating all processes and procedures relating to acquisitions of goods and services.
- (c) Asset Management Policy.
- (d) Financial Asset Management Policy.
- (e) Budget Policy - The processes to be followed during the budget process as well as pre-determined prioritisation methodology.

3.3.2 This policy does not overrule the requirement to comply with other policies. The Chief Financial Officer (CFO) will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

### **3.4 APPROVAL AND EFFECTIVE DATE**

3.4.1 The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. The effective date for implementation of the policy is 1 July 2015.

### **3.5 POLICY IMPLEMENTATION**

3.5.1 Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Executive Managers, to give effect to this policy.

### **3.6 POLICY AMENDMENT**

3.6.1 This policy will be updated whenever deemed necessary by the CFO, in consultation with the Municipal Manager and respective Executive Managers. Changes to this document shall only be applicable if approved by Council.

## **4. POLICY FOR INSURANCE MANAGEMENT**

### **4.1 DEFINITIONS AND RULES**

#### **4.1.1 Insurance**

Insurance is a contract (policy) in which the municipality receives financial protection or reimbursement against losses from an insurance company. Risk is transferred when the risk is shared amongst different parties, so one party does not carry the full loss should an event occur. Insurance involves a transfer of risk.

#### **4.1.2 Self-Insurance Reserve**

Entities have self-insurance reserves to set aside amounts to offset potential losses or claims that are not insured externally. The balance of the self-insurance reserve is determined based on insurance risk carried by the municipality and past claims history and is increased by a transfer from the accumulated surplus/(deficit). Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

#### **4.1.3 Excess means the first amount payable in the event of each and every claim.**

#### **4.1.4 Personal effects means staff personal property including wallets, cash, handbags, sunglasses, clothes, shoes, reading glasses and mobile phones.**

#### **4.1.5 Burglary means the criminal offense of breaking and entering a building or other premises illegally for the purpose of committing a crime.**

#### **4.1.6 Forcible and violent means an act that would cause physical damage. There must be both forcible (as simple as turning a key or pushing open a door) AND violent actions (entry by the use of any force accompanied by a violent physical act).**

4.1.7 Public liability claims means third party claims for bodily injury and property damage arising out of the municipality's operations.

## **4.2 POLICY STATEMENT**

### **4.2.1 Municipal Assets**

- (a) Material movable and immovable assets (in value and substance) shall be insured at least against destruction, fire and theft, and all municipal buildings shall be insured at least against fire and allied perils.
- (b) All insured assets shall be handled in terms of the municipality's Insurance Policy as agreed with the Insurance Brokers.
- (c) Separate cover for riot, strike and public disorder damage shall be taken out at the discretion of the Municipal Manager in consultation with the CFO and the relevant Executive Manager.
- (d) Any other insurance cover shall be at the discretion of the Municipal Manager.
- (e) The decision whether to insure an asset or not shall be at the discretion of the Municipal Manager in consultation with the CFO and the relevant Executive Manager.

### **4.2.2 Self-Insurance Reserve**

The municipality shall establish and administer a self-insurance reserve (SIR). All uninsured assets and liabilities, as well as assets and liabilities where claims for damage or loss do not exceed the excess payable are repaired or replaced from the self-insurance reserve.

#### 4.2.3 Staff property

Applications by staff members for reimbursement of the loss of or damage to staff property at work shall not be considered by the municipality. Liability will not be accepted by the municipality for loss or damage to an employee's personal effects which are used or stored on premises owned or used by the municipality except in circumstances as stated in paragraph 4.3.16 (c).

#### 4.2.4 Public Liability

- (a) Third parties are to be covered for death, bodily injury or illness and/or loss of or damage to property up to a maximum limit to be determined by the CFO in consultation with the Municipal Manager.
- (b) All public liability claims under the excess amount of R 20,000 shall be referred to the "Insurance Committee".

#### 4.2.5 Limits

On an annual basis the excess limits shall be assessed as part of the adjudication of the insurance quotations received from the Insurance Companies/Insurance Brokers. The excess limits shall be at the discretion of the CFO in consultation with the Municipal Manager.

#### 4.2.6 Payment of excesses by employees

Where in the opinion of the relevant Executive Manager and the Municipal Manager an employee's negligence led to the damage to, or loss of, an asset the excess payable may be claimed from the employee concerned in terms of the Disciplinary Procedures.

### **4.3 RESPONSIBILITIES**

- 4.3.1 The CFO shall (at least) every three years call for tenders for the insurance of municipal assets, Councillors, employees and third parties.
- 4.3.2 Each Executive Manager shall before 31 May of each year verify or update the schedule of insurable risks and insurable assets under their control (and any other information deemed necessary).
- 4.3.3 The CFO shall, in accordance with such schedules and subject to this policy, effect such insurance through the service of an Insurance Company/Insurance Broker appointed by the Council.
- 4.3.4 The insurance period will be from 1 July to 30 June of the following year and shall be renewable, dependent on previous performance, for a maximum period of three years.
- 4.3.5 Premiums shall be paid either monthly or annually in advance at the discretion of the CFO.
- 4.3.6 Should circumstances change during the year amendments, additions or deletions should be made to the insurance portfolio with the Insurance Company / Insurance Broker.
- 4.3.7 It shall be the duty of each Executive Manager to notify the CFO (or delegated official) without delay of any new insurable risk or of any alteration in an existing insurable risk which has arisen in connection with his/her department.
- 4.3.8 On the occurrence of any event giving rise or likely to give rise to a claim by or against the Council or against its insurers, the Executive Manager of the department concerned shall ensure that the CFO (or delegated official) is notified of that event.



- 4.3.9 The CFO (or delegated official) shall immediately notify the Council's insurer of any claim by or against the Council or against its insurers.
- 4.3.10 It is the responsibility of the relevant Executive Manager to ensure that all documents / information (for example any required forms, reports, quotations) for the completion of the claim is forwarded to the CFO (or delegated official) for submission to Council's insurance brokers.
- 4.3.11 Each claim by or against the Council shall be reported for investigation and the outcome reported to the Executive Manager of the department concerned to institute disciplinary steps and / or recovery if deemed necessary.
- 4.3.12 Employees should avoid storing private property at the workplace for extended periods of time, especially over weekends and during vacation periods.
- 4.3.13 Each employee should insure personal property against loss or damage, particularly if it is of significant value.
- 4.3.14 To minimise the risk of loss and inconvenience to staff, each Executive Manager should advise all staff of their obligations to ensure the security of private property brought to the workplace.
- 4.3.15 The CFO shall annually determine the amount to be transferred to the Self-Insurance Reserve after having received a list of assets and insurable values of all relevant assets from the Executive Managers concerned.

4.3.16 The “Insurance Committee” is responsible for –

- (a) Assessing all public liability claims under the excess amount of R 20,000;
- (b) Assessing all applications (which meet specified conditions) by staff members for reimbursement of an amount up to R 5,000 regarding malicious damage to his / her motor vehicle by a third party while performing official duties after hours away from the workplace;
- (c) Assessing all applications (which meet specified conditions) by staff members for reimbursement of an amount up to R 10,000 regarding theft of personal effects as a result of a burglary at the workplace by forcible and violent entry;
- (d) Insuring that all claims and applications are dealt with diligently within a reasonable time; and
- (e) Finalising all claims and applications submitted to the committee and ensuring that all the required technical, financial and legal aspects to each claim and application are dealt with when these are being finalised.



*“A place of excellence”*

# **DRAKENSTEIN MUNICIPALITY**

## **SUPPLY CHAIN MANAGEMENT POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## **TABLE OF CONTENTS**

1. Definitions

### **CHAPTER 1**

#### **IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY**

2. Supply chain management policy
3. Amendment of supply chain management policy
4. Delegation of supply chain management powers and duties
5. Sub-delegations
6. Oversight role of council
7. Supply chain management units
8. Training of supply chain management officials

### **CHAPTER 2**

#### **SUPPLY CHAIN MANAGEMENT SYSTEM**

9. Format of supply chain management system

##### **Part 1: Demand management**

10. System of demand management

##### **Part 2: Acquisition management**

11. System of acquisition management
12. Range of procurement processes
13. General preconditions for consideration of written quotations or bids
14. Lists of accredited prospective providers
15. Petty cash purchases
16. Written or verbal quotations
17. Formal written price quotations

18. Procedures for procuring goods or services through written or verbal quotations and formal written price quotations
19. Competitive bidding process
20. Process for competitive bidding
21. Bid documentation for competitive bids
22. Public invitation for competitive bids
23. Procedure for handling, opening and recording of bids
24. Negotiations with preferred bidders
25. Two-stage bidding process
26. Committee system for competitive bids
27. Bid Specifications Committees
28. Bid Evaluation Committees
29. Bid Adjudication Committees
30. Procurement of banking services
31. Procurement of IT related goods or services
32. Procurement of goods and services under contracts secured by other organs of state
33. Procurement of goods necessitating special safety arrangements
34. Proudly SA Campaign
35. Appointment of consultants
36. Deviation from and ratification of minor breaches of procurement processes
37. Unsolicited bids
38. Combating of abuse of supply chain management system

### **Part 3: Logistics, Disposal, Risk and Performance Management**

39. Logistics management
40. Disposal management
41. Risk management
42. Performance management

**Part 4: Other matters**

43. Prohibition on awards to persons whose tax matters are not in order
44. Prohibition on awards to persons in the service of the state
45. Awards to close family members of persons in the service of the state
46. Ethical standards
47. Inducements, rewards, gifts and favours
48. Sponsorships
49. Objections and complaints
50. Resolution of disputes, objections, complaints and queries
51. Contracts providing for compensation based on turnover
52. Contract management
53. Contract having budgetary implications beyond three years
54. Increase/Extension in approved contract sum/period
55. Right of appeal
56. Notification of bid decisions
57. Unsuccessful bidder debriefing
58. Short title

## 1. Definitions

- 1.1. In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and –
- 1.1.1. **“Act”** means the Municipal Finance Management Act, No. 56 of 2003;
- 1.1.2. **“Bid”** means a written offer in a prescribed or stipulated form in response to an invitation by the municipality for the provision of goods, services or construction works through price quotations, advertised competitive bidding process or proposals;
- 1.1.3. **“Bidder”** means any person submitting a competitive bid or a quotation;
- 1.1.4. **“Closing time”** means the time and day specified in the bid documents for the receipt of bids;
- 1.1.5. **“Competitive bidding process”** means a competitive bidding process referred to in paragraph 12(2)(b)(iii) of this Policy;
- 1.1.6. **“Competitive bid”** means a bid in terms of a competitive bidding process;
- 1.1.7. **“Contract”** means the agreement which is concluded when the municipality accepts, in writing, a competitive bid or quotation submitted by a supplier;
- 1.1.8. **“Contractor”** means any person or entity whose competitive bid or quotation has been accepted by the municipality;
- 1.1.9. **“Delegated authority”** means any person or committee delegated with authority by the municipality in terms of the provisions of the Municipal Finance Management Act;
- 1.1.10. **“Department”** means a section within a specific directorate in terms of the municipal organigram;

1.1.11. **“Emergency dispensation”** means emergency as referred to in paragraph 36(1)(a)(i) of this policy under which one or more of the following is in existence that warrants an emergency dispensation;

- (a) The possibility of human injury or death;
- (b) The prevalence of human suffering or deprivation of rights;
- (c) The possibility of damage to property, or suffering and death of livestock and animals;
- (d) The interruption of essential services, including transportation and communication facilities or support services critical to the effective functioning of the municipality as a whole;
- (e) The possibility of serious damage occurring to the natural environment;
- (f) The possibility that failure to take necessary action may result in the municipality not being able to render an essential community service;
- (g) The possibility that the security of the state could be compromised; or
- (h) The prevailing situation, or imminent danger, should be of such a scale and nature that it could not readily be alleviated by interim measures, in order to allow time for the formal procurement process. Emergency dispensation shall not be granted in respect of circumstances other than those contemplated above.

1.1.12. **“Final award”**, in relation to bids or quotations submitted for a contract, means the final decision on which a bid or quote is accepted;

1.1.13. **“Formal written price quotation”** means quotations referred to in paragraph 12 (1) (d) of this Policy;



1.1.14. “Green procurement” means the procurement of environmentally friendly products and services;

1.1.15. “**in the service of the state**” means to be –

(a) A member of –

(i) Any municipal council;

(ii) Any provincial legislature; or

(iii) The National Assembly or the National Council of Provinces;

(b) A member of the board of directors of any municipal entity;

(c) An official of any municipality or municipal entity;

(d) An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the public Finance Management Act, 1999 (Act No.1 of 1999);

(e) A member of the accounting authority of any national or provincial public entity; or

(f) An employee of Parliament or a provincial legislature;

1.1.16. “**Long term contract**” means a contract with a duration period exceeding one year and does not have the same meaning as contracts of a long term nature referred to in paragraph 22(1)(b)(vi) of this policy;

1.1.17. “**Long term nature contract**” means a contract as defined by section 33(1) of the Municipal Finance Management Act imposing financial obligations on the Municipality beyond the first three years covered in the approved annual budget;

- 1.1.18. **“List of accredited prospective providers”** means the list of accredited prospective providers, which the Drakenstein Municipality must keep in terms of paragraph 14 of this policy;
- 1.1.19. **“Other applicable legislation”** means any other legislation applicable to municipal supply chain management, including but not limited to the following –
- (a) The Preferential Procurement Policy Framework Act;
  - (b) The Broad-Based Black Economic Empowerment Act; and
  - (c) The Construction Industry Development Board Act;
  - (d) The Local Government: Municipal Systems Act;
  - (e) The Competition Act; and
  - (f) The Promotion of Administrative Justice Act.
- 1.1.20. **“Policy”** means the Supply Chain Management Policy of Drakenstein municipality as amended from time to time;
- 1.1.21. **“Parent municipality”** has the meaning assigned to it in section 1 of the Municipal Systems Act;
- 1.1.22. **“Petty Cash”**, means the procurement of goods and services through the supply chain management requisition and order system by means of one verbal and written quotation below a determined amount;
- 1.1.23. **“Single source”**: refers to when the competition exist in the market, but from a selected few suppliers due to technical capabilities and abilities comply with the requirements of the municipality;

- 1.1.24. **“Sole Supplier:”** It refers in instances where there is no competition and only one service provider exist in the market, with sole distribution rights and/or patent rights or manufacturer;
- 1.1.25. **“Strip and quote:”** When the repairs and maintenance on our machines, vehicles are done by one supplier and/or strip-and-quote, for example a municipal vehicle that needs repairs enters the workshop, however to do the repairs, the vehicle has to be send to a supplier that determines what repairs should be done;
- 1.1.26. **“Supplier database”** means the list of accredited prospective providers which the municipality or municipal entity must keep in terms of the Regulation 14 of the Supply Chain Management Regulations;
- 1.1.27. **“Treasury guidelines”** means any guidelines on supply chain management issued by the Minister in terms of section 168 of the Act;
- 1.1.28. **“Trust”** means the agreement through which the property of one person is made over or bequeathed to a trustee to administer such property for the benefit of another person;
- 1.1.29. **“Trustee”** means any person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person;
- 1.1.30. **“The Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- 1.1.31. **“The Regulations”** means the Local Government: Municipal Finance Management Act, 2003, Municipal Supply Chain Management Regulations published by Government Notice 868 of 2005;
- 1.1.32. **“The PPPF Regulations”** means Preferential Procurement Policy Regulations, 2011 Published under Government Notice R502 in Government Gazette 34350 of 8 June 2011; and

- 1.1.33. **“Written or verbal quotations”** means quotations referred to in paragraph 12(1)(b) & (c) of this Policy.

## **CHAPTER 1**

### **IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY**

#### **2. Supply chain management policy**

- (1) All officials and other role players in the supply chain management system of the Drakenstein Municipality must implement this Policy in a way that –
- (a) Gives effect to –
    - (i) Section 217 of the Constitution; and
    - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
  - (b) Is fair, equitable, transparent, competitive and cost effective;
  - (c) Complies with –
    - (i) The Regulations; and
    - (ii) Any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
  - (d) Is consistent with other applicable legislation;
  - (e) Does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and

- (f) Is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- (2) The municipal entity must, in addition to complying with subparagraph (1), apply this Policy, to the extent determined by the parent municipality, in a way that is consistent with the supply chain management policy of the parent municipality.
- (3) This Policy applies when the Drakenstein Municipality –
- (a) Procures goods or services;
  - (b) Disposes goods no longer needed;
  - (c) Selects contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
  - (d) Selects external mechanisms referred to in section 80(1)(b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.
- (4) This Policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including –
- (a) Water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
  - (b) Electricity from Eskom or another public entity, another municipality or a municipal entity.

### **3. Amendment of the supply chain management policy**

- (1) The Accounting Officer must –
  - (a) At least annually review the implementation of this Policy; and
  - (b) When the Accounting Officer considers it necessary, submit proposals for the amendment of this Policy to the Drakenstein Council.
- (2) If the Accounting Officer submits proposed amendments to the Drakenstein Council that differs from the model policy issued by the National Treasury, the Accounting Officer must -
  - (a) Ensure that such proposed amendments comply with the Regulations; and
  - (b) Report any deviation from the model policy to the National Treasury and the relevant provincial treasury.
- (3) When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.

### **4. Delegation of supply chain management powers and duties**

- (1) The Drakenstein Council hereby delegates all powers and duties to the Accounting Officer, which are necessary to enable the Accounting Officer –
  - (a) To discharge the supply chain management responsibilities conferred on Accounting Officers in terms of –

- (i) Chapter 8 or 10 of the Act; and
    - (ii) This Policy;
  - (b) To maximize administrative and operational efficiency in the implementation of this Policy;
  - (c) To enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this Policy; and
  - (d) To comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.
- (2) Sections 79 and 106 of the Act apply to the sub-delegation of powers and duties delegated to an Accounting Officer in terms of subparagraph (1).
- (3) The Accounting Officer may not sub-delegate any supply chain management powers or duties to a person who is not an official of Drakenstein Municipality or to a committee, which is not exclusively composed of officials of the Drakenstein Municipality.
- (4) This paragraph may not be read as permitting an official, to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.

## **5. Sub-delegations**

- (1) The Accounting Officer may in terms of section 79 or 106 of the Act sub-delegate any supply chain management powers and duties, including those

delegated to the Accounting Officer in terms of this Policy, but any such sub-delegation must be consistent with subparagraph (2) of this paragraph and paragraph 4 of this Policy.

- (2) The power to make a final award –
  - (a) Above R 10 million (VAT included) may not be sub-delegated by the Accounting Officer;
  - (b) Above R 200,000 (VAT included), but not exceeding R 10 million (VAT included), may be sub-delegated but only to –
    - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is a member; or
    - (ii) Accounting Officer of the municipality, after due consideration of all facts was done; and
  - (c) Below R 200,000 (VAT included) to be disposed by delegated official according approved delegatory power and functions issued by Accounting Officer.
- (3) The Bid Adjudication Committee to which the power to make final awards has been sub-delegated in accordance with subparagraph (2) must within five days of the end of each month submit to the official referred to in subparagraph (4) a written report containing particulars of each final award made by such official or committee during that month, including –
  - (a) The amount of the award;
  - (b) The name of the person to whom the award was made; and
  - (c) The reason why the award was made to that person.



- (4) A written report referred to in subparagraph (3) must be submitted –
  - (a) To the Accounting Officer, in the case of an award by –
    - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is a member; or
  - (b) To the Chief Financial Officer or the senior manager responsible for the relevant bid, in the case of an award by –
    - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is not a member.
- (5) Subparagraphs (3) and (4) of this policy do not apply to procurements out of petty cash.
- (6) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.
- (7) No supply chain management decision-making powers may be delegated to an advisor or consultant.

## **6. Oversight role of council**

- (1) The Drakenstein Council reserves its right to maintain oversight over the implementation of this Policy.

- (2) For the purposes of such oversight the Accounting Officer must –
  - (i) Within 30 days of the end of each financial year, submit a report on the implementation of this Policy and the supply chain management policy of any municipal entity under the sole or shared control of the municipality, to the council of the municipality; and
  - (ii) Whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to Council.
- (3) The Accounting Officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the Executive Mayor.
- (4) The reports must be made public in accordance with section 21A of the Municipal Systems Act.

## **7. Supply chain management unit**

- (1) A supply chain management unit is hereby established to implement this Policy.
- (2) The supply chain management unit operates under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

## **8. Training of supply chain management officials**

- (1) The training of officials involved in implementing this Policy should be in accordance with any Treasury guidelines on supply chain management training.

## **CHAPTER 2**

### **SUPPLY CHAIN MANAGEMENT SYSTEM**

#### **9. Format of supply chain management system**

(1) This Policy provides systems for –

- (i) Demand management;
- (ii) Acquisition management;
- (iii) Logistics management;
- (iv) Disposal management;
- (v) Risk management; and
- (vi) Performance management.

#### **Part 1: Demand management**

#### **10. System of demand management**

- (1) The Accounting Officer must establish and implement an appropriate demand management system in order to ensure that the resources required by Drakenstein Municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.
- (2) The demand management system must –
  - (a) Include timely planning and management processes to ensure that all goods and services required by Drakenstein Municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
  - (b) Take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
  - (c) Provide for the compilation of the required specifications to ensure that its needs are met; and
  - (d) To undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.
- (3) Green procurement must be incorporated as far as reasonably possible for all specifications of goods, services and construction works.
- (4) In the development of bid specifications, innovative mechanisms should be explored to render the service or product more resource and energy efficient.

## **Part 2: Acquisition management**

### **11. System of acquisition management**

- (1) The Accounting Officer must implement the system of acquisition management set out in this Part in order to ensure –
  - (a) That goods and services are procured by Drakenstein Municipality in accordance with authorised processes only;
  - (b) That expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
  - (c) That the threshold values for the different procurement processes are complied with;
  - (d) That bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
  - (e) That any Treasury guidelines on acquisition management are properly taken into account.
- (2) When procuring goods or services contemplated in section 110(2) of the Act, the Accounting Officer must make public the fact that such goods or services are procured otherwise than through the Drakenstein Municipality supply chain management system, including –
  - (a) The kind of goods or services; and
  - (b) The name of the supplier.
- (3) The Accounting Officer may on motivation of an Executive Manager extend the bid closing date, if circumstances justify the action, provided that the closing date may not be extended unless a notice is published by the Manager: Supply Chain Management in the same newspapers as the original advertisement as well as the website, prior to the original bid closing date. All

prospective bidders must also be informed in writing by the relevant Executive Manager of the extension of the bid closing date.

- (4) Unless otherwise indicated in the bid documents, the Municipality shall not be liable for any expenses incurred by prospective bidders in the preparation and / or submission of a bid or quotation.

## **12. Range of procurement processes**

- (1) Goods and / or services may only be procured by way of –
  - (a) Cash purchases administered by the Expenditure Division up to a transaction value as defined in Council's Petty Cash Policy;
  - (b) Petty cash purchases through one verbal and written quotation for the procurement of goods through the supply chain management requisition and order system of a transaction value between R 0 and R 2,000 (VAT included);
  - (c) Written or verbal quotations for procurement of goods and/or services of a transaction value between R 2,000 and R 10,000 (VAT included);
  - (d) Formal written quotations for procurement of goods and/or services of a transaction value between R 10,000 and R 200,000;
  - (e) Procurements above a transaction value of R 200,000 (VAT included); and
  - (f) The procurement of long-term contracts.
- (2) The Accounting Officer may, in writing-

- (a) Lower, but not increase, the different threshold values specified in subparagraph (1); or
- (b) Direct that –
  - (i) Written quotations are obtained for any specific procurement of a transaction value lower than R 2,000;
  - (ii) Written price quotations be obtained for any specific procurement of a transaction value lower than R 10,000; or
  - (iii) A competitive bidding process be followed for any specific procurement of a transaction value higher than R 200,000.
- .
- (3) Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.

### **13. General preconditions for consideration of written quotations or bids**

- (1) A written quotation or bid may not be considered unless the provider who submitted the quotation or bid –
  - (a) Has furnished that provider's –
    - (i) Full name;
    - (ii) Identification number or company or other registration number; and

- (iii) Tax reference number and VAT registration number, if any;
- (b) Has authorised the Drakenstein Municipality to obtain a tax clearance, if applicable from the South African Revenue Services that the provider's tax matters are in order; and
- (c) Has indicated –
  - (i) Whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
  - (ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
  - (iii) Whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

## **14. Lists of accredited prospective providers**

- (1) The Accounting Officer must –
  - (a) Keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations;
  - (b) At least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective



providers of goods or services to apply for evaluation and listing as accredited prospective providers;

- (c) Specify the listing criteria for accredited prospective providers as stated within the database registration forms; and
  - (d) Disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- (2) The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.
- (3) The list must be compiled per commodity and per type of service.

## **15. Petty cash purchases**

- (1) The Accounting Officer must establish the conditions for the procurement of goods by means of cash purchases and petty cash purchases referred to in paragraph 12(1)(a) and (b) of this Policy, which must include conditions –
- (a) determining the terms on which a manager may delegate responsibility for cash purchases and petty cash purchases to an official reporting to the manager;
  - (b) limiting the maximum number of cash purchases and petty cash purchases or the maximum amounts per month for each manager;

- (c) excluding any types of expenditure from cash purchases and petty cash purchases, where this is considered necessary;
  - (d) requiring a monthly reconciliation report from each manager to the Chief Financial Officer, including –
    - (i) the total amount of cash purchases and petty cash purchases for that month; and
    - (ii) receipts and appropriate documents for each purchase; and
  - (e) any other conditions determined by the Chief Financial Officer.
- (2) Cash purchases will be dealt with in terms of the Petty Cash Policy of Council.
- (3) Petty cash purchases will be dealt with in terms of the Supply Chain Management Policy of Council.

## **16. Written quotations**

- (1) The conditions for the procurement of goods or services through written or verbal quotations are as follows –
- (a) Quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the Drakenstein Municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 13 of this Policy;

- (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers;
- (c) To the extent feasible, providers must be requested to submit such quotations in writing;
- (d) If it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the Accounting Officer or another official designated by the Accounting Officer;
- (e) The Accounting Officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and
- (f) If a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

## **17. Formal written price quotations**

- (1) The conditions for the procurement of goods or services through formal written price quotations are as follows:-
  - (a) Quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the Drakenstein Municipality. Quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 13 of this Policy;
  - (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers not registered on the municipal supplier database;

- (c) If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the Chief Financial Officer or an official designated by the Chief Financial Officer;
  - (d) The Accounting Officer must record the names of the potential providers and their written quotations; and
  - (e) For the obtaining of quotations for services, Drakenstein Municipality will utilize their notice boards.
- (2) A designated official referred to in subparagraph (1)(c) must within three days of the end of each month report to the Chief Financial Officer on any approvals given during that month by that official in terms of that subparagraph.

## **18. Procedures for procuring goods or services through written or verbal quotations and formal written price quotations**

- (1) The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations is as follows –
- (a) When using the list of accredited prospective providers the Accounting Officer must promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis;
  - (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers not registered on the municipal supplier database;
  - (c) All requirements in excess of R 30,000 (VAT included) that are to be procured by means of formal written price quotations must, in addition

to the requirements of paragraph 17, be advertised for at least seven days on the website and an official notice board of the Drakenstein Municipality;

- (d) Offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- (e) The Accounting Officer or Chief Financial Officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation;
- (f) Offers below R 30,000 (VAT included) must be awarded based on compliance to specification and conditions of contract, ability and capability to deliver the goods and services and lowest price;
- (g) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points; and
- (h) Drakenstein Municipality will maintain a proper record keeping system.

## **19. Competitive bids**

- (1) Goods or services above a transaction value of R 200,000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11(2) of this Policy.

- (2) No requirement for goods or services above an estimated transaction value of R 200,000 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.

## **20. Process for competitive bidding**

- (1) The procedures for the following stages of a competitive bidding process are as follows:-
  - (a) Compilation of bidding documentation as detailed in paragraph 21;
  - (b) Public invitation of bids as detailed in paragraph 22;
  - (c) Site meetings or briefing sessions as detailed in paragraph 22;
  - (d) Handling of bids submitted in response to public invitation as detailed in paragraph 23;
  - (e) Evaluation of bids as detailed in paragraph 28;
  - (f) Award of contracts as detailed in paragraph 29;
  - (g) Administration of contracts;
  - (h) After approval of a bid, the Accounting Officer and the bidder must enter into a written agreement;
  - (i) Proper record keeping; and
  - (j) Original / legal copies of written contracts agreements must be kept in a secure place for reference purposes.

## **21. Bid documentation for competitive bids**

- (1) The criteria to which bid documentation for a competitive bidding process must comply, must –
  - (a) Take into account –
    - (i) The general conditions of contract and any special conditions of contract, if specified;
    - (ii) Any Treasury guidelines on bid documentation; and
    - (iii) The requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
  - (b) Include the preference points system to be used, goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
  - (c) Compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
  - (d) If the value of the transaction is expected to exceed R 10 million (VAT included), require bidders to furnish –
    - (i) If the bidder is required by law to prepare annual financial statements (AFS) for auditing, their audited AFS –
      - (aa) For the past three years; or

- (bb) Since their establishment if established during the past three years;
- (ii) A certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
- (iii) Particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
- (iv) A statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and if so, what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred out of the Republic; and
- (e) Stipulate that disputes must be settled by means of mutual consultation, mediation, adjudication (with or without legal representation), or, when unsuccessful, in a South African court of law;
- (f) The period for which bids are to remain valid and binding must be indicated in the bid documents; and
- (g) A provision for the termination of the contract in the case of non- or under-performance and objections and complaints must be included in the bid documentation.

## **22. Public invitation for competitive bids**



- (1) The procedure for the invitation of competitive bids is as follows –
- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the Drakenstein Municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and
  - (b) The information contained in a public advertisement, must at least include the following –
    - (i) The title of the bid;
    - (ii) The bid number;
    - (iii) Whether functionality is applicable;
    - (iv) Whether local content is applicable;
    - (v) The place where the bid documentation is available for collection and the times between which bid documents may be collected;
    - (vi) The closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R 10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy;
    - (vii) A statement that bids may only be submitted on the bid documentation provided by the Drakenstein Municipality;

- (viii) Date, time and venue of any proposed site meetings or briefing sessions and whether such meetings are compulsory;
  - (ix) Whether a payment of a non-refundable deposit is required by bidders wanting to collect bid documents which deposit amount shall be determined by the Municipal Council from time to time;
  - (x) The bid validity period; and
  - (xi) Contact details for further enquiries.
- (2) The Accounting Officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- (3) Bids submitted must be sealed and must clearly indicate the bid number on the outside of the envelope for which the bid is being submitted.
- (4) Where bids are requested by the Municipality in electronic format, such bids must be supplemented by sealed hard copies.
- (5) Details of all prospective bidders who have been issued with bid documents must be recorded by the Municipality and shall remain confidential for the duration of the bid period. Details of prospective bidders must, wherever possible, include the full name of the person drawing the bid documents, the name of the company for whom the bid documents are, a contact person, a contact telephone number, a fax number and a postal and email address.
- (6) The municipality may require bidders to submit section(s) of their bid in electronic format, but only after the bid closing date. If the electronic copy differs from the original hard copy, the original hard copy will be binding.

**23. Procedure for handling, opening and recording of competitive bids and formal written price quotations in excess of R 30,000**

(1) The procedures for the handling, opening and recording of bids are as follows –

(a) Bids –

- (i) Must be opened only in public;
- (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired; and
- (iii) Received after the closing time should not be considered and returned unopened immediately; and

(b) Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price;

(c) No information, except the provisions in subparagraph (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award;

(d) The Accounting Officer must –

- (i) Record in a register all bids received in time;
- (ii) Make the register available for public inspection; and
- (iii) Publish the entries in the register and the bid results on the website.

- (e) The bidder shall choose a *domicilium citandi et executandi* in the Republic and unless notice of the change thereof has duly been given in writing, it shall be the address stated in the bid.
- (f) Opening of bid procedures –
  - (i) At the specified closing time on the closing date the applicable bid box shall be closed;
  - (ii) The bid box shall be opened in public as soon as practical after the closing time by at least two officials from the Supply Chain Management Unit;
  - (iii) It is the responsibility of the bidder to ensure that their bid is placed in the correct bid box. The municipality will not on its own initiative redirect any bid if it is placed in an incorrect bid box before the closing time of submissions.
  - (iv) Immediately after the opening of the bid box all bids shall be opened in public;
  - (v) At the official opening of the bids, the bids shall in all cases be read out in terms of the name of the bidder and, if practical, the amount of the bid;
  - (vi) As soon as a bid or technical proposal has been opened the bid / proposal shall be stamped with the official stamps, and endorsed with the opening officials' signatures;
  - (vii) The name of the bidder, and where possible, the bid sum shall be recorded in a bid opening record kept for that purpose; and

- (viii) The responsible officials who opened the bidding documentation received shall forthwith place their signatures on the bid opening record (register) and shall ensure that the bid opening record, indicating at least the bid price of each bidder, the BBBEE status level contribution of each bidder and where applicable the local content percentages of the goods offered are made available for public inspection and are published on the municipality's website.

(g) Site Inspections / clarification meeting –

- (i) Site inspections / clarifications meeting, where applicable, will be compulsory.
- (ii) If site inspections / clarification meeting are to be held, full details must be included in the bid notice.

(h) Bid validity periods

- (i) The validity period is calculated from the bid closure date and bids shall remain in force and binding for a period as indicated in the invitation to bid and the bid documents, subject to any other applicable legislation and instructions from the National Treasury for specific types of procurement.
- (ii) The period of validity may be extended by the relevant Executive Manager, provided that the original bid validity period has not expired and that all bidders are given an opportunity to extend such period.
- (iii) Any such extension shall be agreed to by a bidder in writing. Bidders who fail to respond to such a request before the validity of their bid expires, or who decline such a request shall not be considered further in the bid evaluation process.

- (iv) All bidders who indicated the acceptance of the extension of the bid validity period, bids will be considered for evaluation purposes.
  - (v) To cater for a possible objection or complaint in terms of paragraph 49 of this policy or an appeal in terms of section 62 of the Municipal Systems Act, the official responsible for the bid must ensure that all bidders are requested to extend the validity of their bids where necessary in order to ensure that the bids are valid throughout the objection, complaint or appeal period.
  - (vi) If the validity of all bids expired without it being awarded within the bid validity period, including any extensions thereof allowable in terms of applicable legislation, the bid must be cancelled and published in the same media in which the original bid invitation appeared.
  - (vii) All bidders must be notified in writing of the cancellation of a bid in terms of subparagraph (vi) above.
- (i) Samples
- (i) The call for samples should be limited to where samples are called for in the bid documents, samples (marked with the bid and item number as well as the bidder's name and address) shall be delivered separately (to the bid) to the addressee mentioned in the bid documents by no later than the closing time of the bid.
  - (ii) Bids may not be included in parcels containing samples.

- (iii) If samples are not submitted as required in the bid documents, then the part of the bid for which no sample is provided shall be declared invalid.
  - (iv) Samples shall be supplied by a bidder at his / her own expense and risk. Drakenstein Municipality shall not be obliged to pay for such samples or compensate for the loss thereof, unless otherwise specified in the bid documents, and shall reserve the right to return such samples or to dispose of them at its own discretion.
  - (v) If a bid is accepted for the supply of goods according to a sample submitted by the bidder, that sample will become the contract sample. All goods/materials supplied shall comply in all respects to that contract sample.
- (j) Bid Sum
- (i) A bid will not necessarily be invalidated if the amount in words and the amount in figures do not correspond, in which case the amount in words shall be read out at the bid opening.

## **24. Negotiations with preferred bidders**

- (1) The Accounting Officer may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation –
  - (a) Does not allow any preferred bidder a second or unfair opportunity;
  - (b) Is not to the detriment of any other bidder; and

- (c) Does not lead to a higher price than the bid as submitted.
- (2) Minutes of such negotiations must be kept for record purposes.

## **25. Two-stage bidding process**

- (1) A two-stage bidding process is allowed for –
- (a) Large complex projects;
  - (b) Projects where it may be undesirable to prepare complete detailed technical specifications; or
  - (c) Long term projects with a duration period exceeding three years.
- (2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- (3) In the second stage final technical proposals and priced bids should be invited.

## **26. Committee system for competitive bids**

- (1) A committee system for competitive bids is hereby established, consisting of the following committees for each procurement or cluster of procurements as the Accounting Officer may determine as issued within the directive and stating the terms of reference of each bid committee –
- (a) A Bid Specifications Committee;



- (b) A Bid Evaluation Committee; and
  - (c) A Bid Adjudication Committee.
- (2) The Accounting Officer appoints the members of each committee, taking into account section 117 of the Act; and
- (3) A neutral or independent observer, appointed by the Accounting Officer, must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.
- (4) The committee system must be consistent with –
  - (a) Paragraph 27, 28 and 29 of this Policy;
  - (b) Any other applicable legislation; and
  - (c) The Accounting Officer may apply the committee system to formal written price quotations.

## **27. Bid Specifications Committees**

- (1) A Bid Specifications Committee must compile the specifications for each procurement of goods or services by the Drakenstein Municipality.
- (2) Specifications –
  - (a) Must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
  - (b) Must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or

an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;

- (c) Must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
  - (d) May not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
  - (e) May not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word “equivalent”;
  - (f) Must indicate the preference points system set out in the Preferential Procurement Regulations 2011;
  - (g) Must be approved by the Accounting Officer prior to publication of the invitation for bids in terms of paragraph 22 of this Policy; and
  - (h) The Accounting Officer may sub-delegate the requirements in sub-paragraph 2(g) above to the Chairperson of the Bid Specifications Committee.
- (3) A Bid Specifications Committee must be composed of one or more officials of the Drakenstein Municipality preferably the manager responsible for the function involved, and may, when appropriate, include external and / or internal specialist advisors.

- (4) No person, advisor or corporate entity involved with the Bid Specifications Committee, or director of such a corporate entity, may bid for any resulting contracts.

## **28. Bid Evaluation Committees**

- (1) A Bid Evaluation Committee must –
  - (a) Evaluate bids in accordance with –
    - (i) The specifications for a specific procurement; and
    - (ii) The points system set out in terms of paragraph 27(2)(f);
  - (b) Evaluate each bidder's ability to execute the contract;
  - (c) Check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears; and
  - (d) Submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- (2) A Bid Evaluation Committee must as far as possible be composed of –
  - (a) Officials from departments requiring the goods or services; and
  - (b) At least one supply chain management practitioner of the Drakenstein Municipality.
- (3) The relevant user department's official shall carry out a preliminary evaluation of all valid bids received and shall submit a bid evaluation report to the Bid Evaluation Committee for consideration.

- (4) Any evaluation of a bid shall consider the bids received and shall note for inclusion in the evaluation report, a bidder –
- (a) Whose bid does not comply with the provisions of paragraph 38 of this Policy;
  - (b) Whose bid does not comply with the provisions of paragraph 13 of this Policy;
  - (c) Whose bid is not in compliance with the specification;
  - (d) Whose bid is not in compliance with the terms and conditions of the bid documentation;
  - (e) Who is not registered and verified on the municipality's supplier database within seven days of the closing time for bids. In this regard bid documentation shall state that the responsibility for registration and verification rests solely with the bidder;
  - (f) Who, in the case of construction works acquisitions, does not comply with the requirements of the Construction Industry Development Board Act regarding registration of contractors. Verification of compliance with this requirement shall be by means of Drakenstein Municipality's Supplier Database;
  - (g) Who has failed to submit a valid tax clearance certificate form from the South African Revenue Services (SARS) certifying that the taxes of the bidder are in order or that suitable arrangements have been made with SARS; and
  - (h) Who fails to comply with any applicable Bargaining Council agreement.
- (5) Bids shall be evaluated according to the following as applicable –

- (ii) Bid price (corrected if applicable and brought to a comparative level where necessary);
  - (iii) The unit rates and prices;
  - (iv) The bidder's ability to fulfil its obligations in terms of the bid documents;
  - (v) Any qualifications to the bid;
  - (vi) The bid ranking obtained in respect of Preferential Procurement as required by Drakenstein Municipality's Preferential Procurement Policy;
  - (vii) The financial standing of the bidder, including its ability to furnish the required institutional guarantee, where applicable; and
  - (viii) Any other criteria specified in the bid documents.
- (6) The Bid Evaluation Committee shall check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears.
- (7) The evaluation of bids on an equitable basis may be considered during the evaluation process.
- (8) Additional information or clarification of bids may be called for if required.
- (9) Alternative bids may be considered, provided that a bid free of qualifications and strictly in accordance with the bid documents is also submitted. Drakenstein Municipality shall not be bound to consider alternative bids. The alternative offer is to be submitted with the main offer together with a schedule that compares the specifications of the bid documents with the alternative offer.

- (10) If a bidder requests in writing, after the closing of bids, that his/her bid be withdrawn, then such a request may be considered and reported in the bid evaluation report.
- (11) If, after bids have been brought to a comparative level, two or more scores equal total adjudication points, regulation 11(5) of the Preferential Procurement Regulations of 2011 will apply.
- (12) If two or more bids are equal in all respects after applying regulation 11(5), the Bid Evaluation Committee shall draw lots to decide on the recommendation for award.
- (13) All disclosures of conflict of interest shall be considered by the Bid Evaluation Committee and if the conflict of interest is of a material nature, this shall be reported to the Bid Adjudication Committee.
- (14) The relevant Executive Manager or the Manager: Supply Chain Management may, before the bid is considered by the Bid Evaluation Committee, provide a reasonable opportunity to a bidder who made an innocent error and / or omission in their bid document, to correct the innocent error and / or omission, provided that such opportunity will not unduly prejudice any of the other bidders.
- (15) In an event as described in sub-paragraph 14, bidders shall be afforded a minimum of two (2) working days up to a maximum of five (5) working days (on discretion of the relevant Executive Manager or the Manager: Supply Chain Management) from time of notification to correct such innocent errors and / or omissions. If no response is received from such bidders at the deadline the bid may be deemed to be non-responsive.

## **29. Bid Adjudication Committees**

- (1) A Bid Adjudication Committee must –
  - (a) Consider the report and recommendations of the Bid Evaluation Committee; and
  - (b) Either –
    - (i) Depending on its delegations, make a final award or a recommendation to the Accounting Officer to make the final award; or
    - (ii) Make another recommendation to the Accounting Officer how to proceed with the relevant procurement.
- (2) A Bid Adjudication Committee must consist of at least four senior managers of the Drakenstein Municipality, which must include –
  - (a) The Chief Financial Officer or, if the Chief Financial Officer is not available, another manager in the budget and treasury office reporting directly to the Chief Financial Officer and designated by the Chief Financial Officer;
  - (b) At least one senior supply chain management practitioner who is an official of the Drakenstein Municipality; and
  - (c) A technical expert in the relevant field who is an official, if such an expert exists.
- (3) The Accounting Officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.

- (4) Neither a member of a Bid Evaluation Committee, nor an advisor or person assisting the evaluation committee, may be a member of a Bid Adjudication Committee.
- (5)
  - (a) If the Bid Adjudication Committee decides to award a bid other than the one recommended by the Bid Evaluation Committee, the Bid Adjudication Committee must prior to awarding the bid—
    - (i) Check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears; and
    - (ii) Notify the Accounting Officer.
  - (b) The Accounting Officer may –
    - (i) After due consideration of the reasons for the deviation, ratify or reject the decision of the Bid Adjudication Committee referred to in paragraph (a); and
    - (ii) If the decision of the Bid Adjudication Committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.
- (6) The Accounting Officer may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.
- (7) The Accounting Officer must comply with section 114 of the Act within 10 working days

### **30. Procurement of banking services**



- (1) A contract for banking services –
  - (a) Must be procured through competitive bids;
  - (b) Must be consistent with section 7 or 85 of the Act; and
  - (c) May not be for a period of more than five years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

### **31. Procurement of IT related goods or services**

- (1) The Accounting Officer may request the State Information Technology Agency (SITA) to assist with the acquisition of IT related goods or services through a competitive bidding process.
- (2) Both parties must enter into a written agreement to regulate the services rendered by and the payments to be made to SITA.
- (3) The Accounting Officer must notify SITA together with a motivation of the IT needs if –

- (a) The transaction value of IT related goods or services required in any financial year will exceed R 50 million (VAT included); or
  - (b) The transaction value of a contract to be procured whether for one or more years exceeds R 50 million (VAT included).
- (4) If SITA's comments on the submission and the Drakenstein Municipality disagree with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor General.

### **32. Procurement of goods and services under contracts secured by other organs of state**

- (1) The Accounting Officer may procure goods or services under a contract secured by another organ of state, but only if –
- (a) The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
  - (b) There is no reason to believe that such contract was not validly procured;
  - (c) There are demonstrable discounts or benefits to do so; and
  - (d) That other organ of state and the provider has consented to such procurement in writing.
- (2) Subparagraphs (1)(c) and (d) do not apply if –
- (a) A municipal entity procures goods or services through a contract secured by its parent municipality; or

- (b) A municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.
- (3) If paragraph (1) is complied with, Drakenstein Municipality must request at least the following documents from the relevant organ of state and service provider as referred to under subparagraph (1)(d) –
- (a) A written declaration confirming –
    - (i) That the organ of state followed a competitive bidding process applicable to it;
    - (ii) That the organ of state has no reason to believe that the contract was not validly procured by itself;
    - (iii) That the organ of state evaluated the bid in terms of price and BBBEE and if applicable, in terms of functionality or quality, and concluded that the bid(s) that were accepted were in all aspects the best compliant and respective bid(s); and
    - (iv) That the organ of state gives formal written permission to Drakenstein Municipality to procure goods and / or services from the approved bid(s) as accepted by the organ of state;
  - (b) Agenda and minutes of the organ of state's Bid Evaluation Committee at which the specific bid was evaluated;
  - (c) Agenda and minutes of the organ of state's Bid Adjudication Committee at which the bid was awarded or the approval of the Accounting Officer of that organ of state who approved the bid;
  - (d) A copy of the successful bidder(s) bid submissions; and
  - (e) Written consent from the service provider.

- (4) If Drakenstein Municipality should enter into a contract secured by other organs of state, it shall enter into a contract with the successful bidder(s) on the same terms and conditions as accepted by the relevant organ of state.
- (5) Contracts entered into by Drakenstein Municipality under paragraph (4) shall not be deemed to be a deviation from the official procurement processes.
- (6) The Accounting Officer shall report to Council on a monthly basis all contracts entered into in terms of paragraph (4) above.

### **33. Procurement of goods necessitating special safety arrangements**

- (1) The acquisition and storage of goods in bulk (other than water), which necessitate special safety arrangements, including gasses and fuel, should be avoided wherever possible.
- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the Accounting Officer.

### **34. Proudly SA Campaign**

- (1) Drakenstein Municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from –
  - (a) Firstly: Suppliers and businesses within the municipality or district;

- (b) Secondly: Suppliers and businesses within the relevant province; and
- (c) Thirdly: Suppliers and businesses within the Republic.

### **35. Appointment of consultants**

- (1) The Accounting Officer may procure consulting services provided that any Treasury guidelines in respect of consulting services or Construction Industry Development Board guidelines in respect of services related to the built environment and construction works are taken into account when such procurements are made.
- (2) Consultancy services must be procured through competitive bids if –
  - (a) The value of the contract exceeds R 200,000 (VAT included); or
  - (b) The duration period of the contract exceeds one year.
- (3) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –
  - (a) All consultancy services provided to an organ of state in the last five years; and
  - (b) Any similar consultancy services provided to an organ of state in the last five years.
- (4) The Accounting Officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the Drakenstein Municipality .

- (5) Where the estimated value of fees is less than R 200,000 and the duration of the appointment is less than one year, any National Treasury and, where applicable, Construction Industry Development Board guidelines in respect of consulting services are taken into account.

### **36. Deviation from and ratification of minor breaches of procurement processes**

- (1) The Accounting Officer may –
- (a) Dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
    - (i) In an emergency (as per definition);
    - (ii) If such goods or services are produced or available from a single source or sole provider only (as per definition);
    - (iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;
    - (iv) Acquisition of animals for zoos and/or nature and game reserves; or
    - (v) In any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
  - (b) Ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties, which are purely of a technical nature.

- (2) The Accounting Officer must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.
- (3) Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 11(2) of this policy.

### **37. Unsolicited bids**

- (1) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- (2) The Accounting Officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –
  - (a) The product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
  - (b) The product or service will be exceptionally beneficial to, or have exceptional cost advantages;
  - (c) The person who made the bid is the sole provider of the product or service; and
  - (d) The reasons for not going through the normal bidding processes are found to be sound by the Accounting Officer.
- (3) If the Accounting Officer decides to consider an unsolicited bid that complies with subparagraph (2) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –

- (a) Reasons as to why the bid should not be open to other competitors;
  - (b) An explanation of the potential benefits if the unsolicited bid were accepted; and
  - (c) An invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.
- (4) The Accounting Officer must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.
- (5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the Accounting Officer, depending on its delegations.
- (6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (7) When considering the matter, the adjudication committee must take into account –
- (a) Any comments submitted by the public; and
  - (b) Any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (8) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the Accounting Officer must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- (9) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the



Drakenstein Municipality to the bid may be entered into or signed within 30 days of the submission.

### **38. Combating of abuse of supply chain management system**

(1) The Accounting Officer must –

- (a) Take all reasonable steps to prevent abuse of the supply chain management system;
- (b) Investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this Policy, and when justified –
  - (i) Take appropriate steps against such official or other role player; or
  - (ii) Report any alleged criminal conduct to the South African Police Service;
- (c) Check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
- (d) Reject any bid from a bidder –
  - (i) If any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the Drakenstein Municipality or to any other municipality or municipal entity, are in arrears for more than three months; or
  - (ii) Who during the last five years has failed to perform satisfactorily on a previous contract with the Drakenstein Municipality or any

other organ of state after written notice was given to that bidder that performance was unsatisfactory;

- (e) Reject a recommendation for the award of a contract if the recommended bidder or any of its directors, or trust or its trustees has committed a corrupt or fraudulent act in competing for the particular contract;
- (f) Cancel a contract awarded to a person if –
  - (i) The person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
  - (ii) An official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) Reject the bid of any bidder if that bidder or any of its directors –
  - (i) Has abused the supply chain management system of the Drakenstein Municipality or has committed any improper conduct in relation to such system;
  - (ii) Has been convicted for fraud or corruption during the past five years;
  - (iii) Has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
  - (iv) Has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).

- (2) The Accounting Officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) of this Policy.
- (3) The performance of service providers will be measured against the stipulations within the municipality's Blacklisting Policy.

### **Part 3: Logistics, Disposal, Risk and Performance Management**

#### **39. Logistics management**

- (1) The Accounting Officer must establish and implement an effective system of logistics management, which must include –
  - (a) The monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
  - (b) The setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
  - (c) The placing of manual or electronic orders for all acquisitions other than those from petty cash;
  - (d) Before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and

specifications where applicable and that the price charged is as quoted in terms of a contract;

- (e) Appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased;
- (f) Regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
- (g) Monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

#### **40. Disposal management**

- (1) A supply chain management policy must provide for an effective system of disposal management for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act
- (2) A supply chain management policy must specify the ways in which assets may be disposed of, including –
  - (a) Transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
  - (b) Transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
  - (c) Selling the asset; and

- (d) Destroying the asset.
- (3) The Accounting Officer must ensure that –
- (a) Immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
  - (b) Movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous, except when the public interest or the plight of the poor demands otherwise;
  - (c) Firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
  - (d) Immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
  - (e) All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
  - (f) Where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
  - (g) In the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.
- (4) All matters relating to the alienation of movable and immovable assets shall be dealt with in terms of Council's Asset Transfer Policy and the Asset Transfer Regulations, 2008.

- (5) Notwithstanding the provisions of paragraph 3 hereof, the following statutory powers of Drakenstein Council in respect of the alienation of immovable property, are reserved to be exercised by Council –
- (a) To decide on reasonable grounds that an asset is not needed to provide the minimum level of basic municipal services; and
  - (b) To considered the fair market value of the asset and the economic and community value to be received in exchange for the asset, and
- (6) Notwithstanding sub-paragraph (3)(b) & (g) above, the Accounting Officer must determine the most advantageous way for the disposal or letting of movable capital assets, i.e. written price quotations, competitive bidding, or auction, except when public interest or the plight of the poor demands otherwise.
- (7) The Accounting Officer is hereby authorized to dispose of movable capital assets below a value of R 500,000 (excluding the approval for selling of assets via public auction process) and to make the determinations in terms of Section 14(2)(a) and (b) of the MFMA, provided that, in respect of capital assets above a value of R 200,000 not being auctioned, the Accounting Officer shall first consider a recommendation from the Supply Chain Management Bid Adjudication Committee.

#### **41. Risk management**

- (1) The criteria for an effective risk management strategy within supply chain management system, should include the identification, consideration and avoidance of potential risks.
- (2) Risk management should include –

- (a) The identification of risks on a case-by-case basis;
- (b) The allocation of risks to the party best suited to manage such risks;
- (c) Acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- (d) The management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
- (e) The assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

## **42. Performance management**

- (1) The Accounting Officer must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes were followed and whether the objectives of this Policy were achieved. The retrospective analysis will link to the regulatory reports and submissions on the implementation of the supply chain management policy to the delegated authorities as prescribed in terms of supply chain management regulations and the delegation system of council, as amended from time to time.

## **Part 4: Other matters**

### **43. Prohibition on awards to persons whose tax matters are not in order**

- (1) No award above R 30,000 (including VAT) may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
- (2) Before making an award to a person the Accounting Officer must first check with SARS whether that person's tax matters are in order.
- (3) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.
- (4) Drakenstein municipality will process transactions per supplier on the proviso that the accumulative amounts per supplier does not exceed R 30,000 (including VAT) per financial year, without the required tax clearance certificate as per paragraph 43(1) above.

#### **44. Prohibition on awards to persons in the service of the state**

- (1) Irrespective of the procurement process followed, no award may be made to a person in terms of this Policy –
  - (a) Who is in the service of the state;
  - (b) If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
  - (c) A person who is an advisor or consultant contracted with the Drakenstein Municipality.



#### **45. Awards to close family members of persons in the service of the state**

- (1) The Accounting Officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R 2,000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –
  - (a) The name of that person;
  - (b) The capacity in which that person is in the service of the state; and
  - (c) The amount of the award.

#### **46. Ethical standards**

- (1) A code of ethical standards as set out in [subparagraph (2) / the “National Treasury’s code of conduct for supply chain management practitioners and other role players involved in supply chain management, which also include all other municipal officials not involved in supply chain management system”] is hereby established for municipal officials and other role players in the supply chain management system of the Drakenstein Municipality in order to promote-
  - (a) Mutual trust and respect; and
  - (b) An environment where business can be conducted with integrity and in a fair and reasonable manner.
- (2) A municipal official or other role player involved in the implementation of this Policy–

- (a) Must treat all providers and potential providers equitably;
- (b) May not use his or her position for private gain or to improperly benefit another person;
- (c) May not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R 350;
- (d) Notwithstanding subparagraph (2)(c), must declare to the Accounting Officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
- (e) Must declare to the Accounting Officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by, the Drakenstein Municipality;
- (f) Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
- (g) Must be scrupulous in his or her use of property belonging to Drakenstein Municipality;
- (h) Must assist the Accounting Officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system; and

- (i) Must report to the Accounting Officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including –
  - (i) Any alleged fraud, corruption, favouritism or unfair conduct;
  - (ii) Any alleged contravention of paragraph 47(1) of this Policy; or
  - (iii) Any alleged breach of this code of ethical standards.
- (3) Declarations in terms of subparagraphs (2)(d) and (e) –
  - (a) Must be recorded in a register, which the Accounting Officer must keep for this purpose; and
  - (b) By the Accounting Officer must be made to the Executive Mayor of the municipality who must ensure that such declarations are recorded in the register.
- (4) The National Treasury's code of conduct and Schedule 2 of the Systems Act must be adhered to by supply chain management practitioners and other role players involved in supply chain management.
- (5) A breach of the code of ethics must be dealt with as follows –
  - (a) In the case of an employee, in terms of the disciplinary procedures of the Drakenstein Municipality envisaged in section 67(1)(h) of the Municipal Systems Act;
  - (b) In the case a role player who is not an employee, through other appropriate means in recognition of the severity of the breach;
  - (c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act; and

- (d) All cases of non-compliance to this Policy should be reported to the Accounting Officer.

#### **47. Inducements, rewards, gifts and favours to municipalities, officials and other role players**

- (1) No person who is a provider or prospective provider of goods or services, or a recipient or prospective recipient of goods disposed or to be disposed of may either directly or through a representative or intermediary promise, offer or grant –
  - (a) Any inducement or reward to the Drakenstein Municipality for or in connection with the award of a contract; or
  - (b) Any reward, gift, favour or hospitality to –
    - (i) Any official; or
    - (ii) Any other role player involved in the implementation of this Policy.
- (2) The Accounting Officer must promptly report any alleged contravention of subparagraph (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- (3) Subparagraph (1) does not apply to gifts less than R 350 in value.

#### **48. Sponsorships**

- (1) The Accounting Officer must promptly disclose to the National Treasury and the relevant provincial treasury any sponsorship promised, offered or granted, whether directly or through a representative or intermediary, by any person who is –
  - (a) A provider or prospective provider of goods or services; or
  - (b) A recipient or prospective recipient of goods disposed or to be disposed.

#### **49. Objections and complaints**

- (1) Persons aggrieved by decisions or actions taken in the implementation of this supply chain management system, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action.

#### **50. Resolution of disputes, objections, complaints and queries**

- (1) The Accounting Officer may, if deem so, appoint an independent and impartial person, not directly involved in the supply chain management processes –
  - (a) To assist in the resolution of disputes between the Drakenstein Municipality and other persons regarding –
    - (i) Any decisions or actions taken in the implementation of the supply chain management system; or
    - (ii) Any matter arising from a contract awarded in the course of the supply chain management system; or

- (b) To deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
- (2) The Accounting Officer, or another official designated by the Accounting Officer, is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed should, if appointed –
  - (a) Strive to resolve promptly all disputes, objections, complaints or queries received; and
  - (b) Submit monthly reports to the Accounting Officer on all disputes, objections, complaints or queries received, attended to or resolved.
- (4) A dispute, objection, complaint or query may be referred to the relevant provincial treasury if –
  - (a) The dispute, objection, complaint or query is not resolved within 60 days; or
  - (b) No response is forthcoming within 60 days.
- (5) If the provincial treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.
- (6) This paragraph must not be read as affecting a person's rights to approach a court at any time.

## **51. Contracts providing for compensation based on turnover**

- (1) If a service provider acts on behalf of a Drakenstein Municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the Drakenstein Municipality must stipulate –
  - (a) A cap on the compensation payable to the service provider; and
  - (b) That such compensation must be performance based.

## **52. Contract Management**

### **(1) Application**

The contract management provisions below are applicable only to contracts for the provision of goods or services

### **(2) Competency**

All contracts must be administered by an official(s) having the necessary competencies to ensure effective management of the contract.

### **(3) Maintenance and Contract Administration**

- (a) Contracts related to the procurement of goods and services will be captured on the financial system.
- (b) Value (where the maximum value of the contract is restricted) and volume (where the maximum units procured are restricted) based contracts will be used.

- (c) The use of fixed price, fixed term contracts will be promoted and expenditure will be driven towards contracts versus once-off purchases.
- (d) Consolidated (municipality wide) procurement volumes have to drive down the negotiated contract prices.
- (e) Contract price adjustments shall be processed only in accordance with contract terms and conditions. Price adjustments shall be made on the procurement contract and any current purchase orders shall be changed to reflect the new price.

(4) Contract Administration

- (a) Contract administration is the last stage of the tendering and contract cycle, and includes all administrative duties associated with a contract after it is executed, including contract review.
- (b) The effectiveness of contract administration will depend on how thoroughly the earlier steps were completed. Changes can be made far more readily early in the tendering cycle than after contract management has commenced.
- (c) Some of the key early stages, which influence the effectiveness of contract administration, include –
  - (i) Defining the output, that is, writing specifications which identify what the aims are; and
  - (ii) Outputs of a contract will be assessed as follows –
    - (aa) Assessing risk;



- (bb) Researching the market place (including conducting pre-tender briefings);
- (cc) Formulating appropriate terms and conditions of contract;
- (dd) Identifying appropriate performance measures and benchmarks so that all parties know in advance what is expected, and how it will be tested;
- (ee) Actively creating competition, so the best possible suppliers bid for contracts; and
- (ff) Evaluating bids competently, to select the best contractor, with a strong customer focus and good prospects of building a sound relationship.

(5) Levels of Contract Administration

- (a) There are three levels of contract administration:
  - (i) The first operational level is for standard contracts for goods and services. Day to day contract administration should become no more than a monitoring, record keeping and payment authorization role. A standard contract, which requires excessive administration, is almost certainly the product of a failure in contract preparation stages. An example of an operational contract would be a stationery contract.
  - (ii) The second or intermediate level is for more complex contracts for services. An example would be a contract to outsource cleaning services. This type of contract will require a more active role for the contract manager in developing the relationship between the Municipality and the contractor.

- (iii) The third level is for strategic contracts involving complex partnerships and outsourcing arrangements. These contracts need more active management of the business relationships between the supplier and the users, for example to manage outputs and not the process. Sufficient resources need to be dedicated by all parties to successfully manage these contractor relationships and, where feasible, to achieve partnership. A partnership is the result of mutual commitment to a continuing co-operative relationship, rather than parties working on a competitive and adversarial basis.

(6) Appointing a Contract Manager

- (a) A contract manager should be appointed by the senior official in charge of the project prior to the execution of the contract.
- (b) Where it is practical to do so, the contract manager should be involved at the earliest stage of the acquisition, which is the time of writing the specification. Contract administration arrangements should be identified and planned including who, how, delegations, reporting requirements and relationships and specific task responsibilities.
- (c) Departments shall be responsible for ensuring that contract managers –
  - (i) Prepare the contract administration plan;
  - (ii) Monitor the performance of the contractor;
  - (iii) Are appointed with appropriate responsibility and accountability;
  - (iv) Are adequately trained so that they can perform and exercise the responsibility; and

- (v) Act with due care and diligence and observe all accounting and legal requirements.

(7) Duties and Powers of Contract Managers

- (a) The contract manager's duties and powers shall be governed by the conditions of contract and the general law.
- (b) The contract manager shall also be required to form opinions and make decisions, and in doing so is expected to be even-handed and prudent.

(8) Contract Guidelines

- (a) A guideline, which provides a description of the roles and responsibilities of a contract manager during the contract administration stage, shall be documented.
- (b) This following is not an exhaustive description of contract administrative activities, and some tasks may not be carried out in the sequence presented, may be done concurrently with other tasks, or may not be necessary in some circumstances.

(9) Delegating to Contract Administrator

- (a) Where appropriate, a contract manager may delegate some contract administration duties to a contract administrator.
- (b) The contract administrator would usually be required to perform duties related to processes for record keeping and authorizing payment and collecting data on the contractor performance.

- (c) The contract manager will however remain ultimately responsible for the performance of the contract.

(10) Contract Management Process

- (a) The contract manager shall ensure the contractor fulfils its obligations and accepts its liabilities under the contract and must also ensure the contractors are treated fairly and honestly.
- (b) Both parties adhering to the agreed terms will result in –
  - (i) Value for money;
  - (ii) Timeliness;
  - (iii) Cost effectiveness; and
  - (iv) Contract performance.

(11) Document Retention

- (a) The need exists to retain documents on a contract file for information and audit purposes, and in order to comply with the requirements of the records office.

(12) Records Office

- (a) Proper records regarding all aspects of the contract must accordingly be maintained.

(13) Guidelines on Contract Administration

- (a) The responsibilities of a contract manager may include the following –

- (i) Establishing a contract management plan for the project;
- (ii) Reviewing the contract management process (including the plan) on a regular basis;
- (iii) Providing liaison between internal managers and users, and suppliers to identify and resolve issues as they arise;
- (iv) Monitoring the contractor's continuing performance against contract obligations;
- (v) Providing the contractor with advice and information regarding developments within the department, where such developments are likely to affect the products provided;
- (vi) Determining if staged products should continue, and providing a procurement process for additional stages which meet the principle of obtaining value for money;
- (vii) Providing accurate and timely reporting to the senior management in charge of the project, highlighting significant performance issues or problems;
- (viii) Ensuring insurance policy(s) terms and conditions provide adequate protection for Drakenstein Municipality and are maintained throughout the contract period;
- (ix) Ensuring all products provided are certified as meeting the specifications before the supplier is paid;
- (x) Maintaining adequate records (paper and/or electronic) in sufficient detail on an appropriate contract file to provide an audit trail;
- (xi) Managing contract change procedures;

- (xii) Resolving disputes as they arise;
- (xiii) Conducting post contract reviews; and
- (xiv) Pursuing remedies in the event of contract breach.

### **53. Contracts having budgetary implications beyond three financial years**

- (1) Drakenstein Municipality may not enter into any contract that will impose financial obligations beyond the three years covered in the annual budget for that financial year, unless the requirements of Section 33 of the Municipal Finance Management Act have been fully complied with.

### **54. Increase / Extension in approved contract sum / period**

- (1) Any increase and / or extension in the approved contract sum that may become necessary as a result of exceptional circumstances during the contract period must be approved by the appropriate bid committees prior to implementation.
- (2) Contracts may be expanded or varied by not more than 20% of the original contract value for construction related goods, services and/or infrastructure projects and 15% for all other goods and/or services.
- (3) Any expansion or variation in excess of these thresholds as stated under subparagraph (2) must be dealt with in terms of the provisions of section 116(3) of the Act which will be regarded as an amendment of a contract.

- (4) Where community participation has been a part of the project, the community must be advised of the proposed increase and be invited to provide written comment within a minimum period of seven (7) days.
- (5) Any unapproved increase in the contract sum must be explained in a report to the Accounting Officer, requesting condonation for of such unapproved increase.

## **55. Right of appeal**

- (1) In terms of Section 62 of the Municipal Systems Act (Act 32 of 2000 as amended), a person whose rights are affected by a decision taken by the Municipality, in terms of a delegated authority, in the implementation of its supply chain management system, may appeal against that decision by giving written notice of the appeal and reasons to the Municipal Manager within 21 days of the date of receipt of the notification of the decision.
- (2) Notification of the decision in terms of sub-paragraph 55(1) of this policy must state that any appeal must be submitted in writing to the Municipal Manager and must at least contain the following information:
  - (a) The reasons and / or grounds for the appeal;
  - (b) The way in which the appellants rights have been affected; and
  - (c) The remedy sought by the appellant.
- (3) No bid, where a competitive bidding process was followed, shall be formally accepted until a ruling has been made on any appeal/s received.
- (4) The appeal authority must consider the appeal and confirm, vary or revoke the decision, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

## **56. Notification of bid decisions**

- (1) The successful and unsuccessful bidders shall be notified in writing by the Corporate Services Division once a bid has been accepted.
- (2) The bidders shall, in addition, be advised of the 21 day appeal period in terms of section 62 of the Municipal Systems Act and be notified that no rights will accrue to him / her until the bid is formally accepted in writing.
- (3) Once the 21 day appeal period has lapsed and a decision has been made by the appeal authority, all bidders will be notified in writing of the outcome thereof by the Corporate Services Division.
- (4) Every notification of decision shall be faxed or sent via electronic mail and ordinary mail to the address chosen by the bidder, with a copy of proof of transmission kept for record purposes, or shall be delivered by hand, in which case acknowledgement of receipt must be signed and dated on a copy of such notification to be kept for record purposes.

## **57. Unsuccessful bidder debriefing**

- (1) The Municipality will offer an unsuccessful bidder debriefing service to unsuccessful bidders upon request.
- (2) During the debriefing unsuccessful bidders will be informed of how their proposal scored against required criteria and obtain comments from the evaluation team on their bid.
- (3) The debriefing should be a positive and constructive experience that explains how bidders can improve future submissions.



- (4) The debriefing is an opportunity for unsuccessful bidders to –
  - (a) Learn more about the procurement and evaluation process in an informal setting;
  - (b) Find out how their proposal scored against the required criteria;
  - (c) Hear the overall comments from the evaluation team on their bid; and
  - (d) Gather information on how future submissions may be improved.
- (5) The debriefing is not part of the Supply Chain complaint or appeal process in terms of paragraph 49 or 55 of this Policy.
- (6) The debriefing is not a legal proceeding and no legal representation is permitted at the debriefing session.
- (7) At the debriefing session the unsuccessful bid is not compared to other bids, nor will information be provided to the unsuccessful bidder about other bids.
- (8) In scheduling a bidder's debriefings session upon the request of the unsuccessful bidder, the municipality must –
  - (a) Confirm the date and time of the debriefing session in writing;
  - (b) Conduct separate debriefings with each unsuccessful bidder;
  - (c) Ensure that proper minutes are kept of each debriefing session; and
  - (d) Retain all correspondence and documentation relevant to the debriefing session as part of the procurement documentation.
- (9) In conducting bidders' debriefings, the municipality may –

- (a) Provide a general overview of the evaluation process set out in the bid documents;
- (b) Discuss the strengths and weaknesses of the bidder's submission in relation to the specific evaluation criteria and the bidders evaluated score;
- (c) Provide suggestions on how the supplier may improve future submissions; and
- (d) Address specific questions and issues raised by the supplier in relation to their submission.

## **58. Short title**

- (1) This policy is called the Drakenstein Municipality Supply Chain Management Policy.



*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **CUSTOMER CARE, CREDIT CONTROL, DEBT COLLECTION AND INDIGENT SUPPORT POLICY**

### **1 July 2016**

Approved by Council: 20 May 2016

Date of implementation: 1 July 2016

## **P R E A M B L E**

**WHEREAS** section 96 of the Local Government: Municipal Systems Act, No 32 of 2000, requires a municipality to adopt, maintain and implement a credit control-, debt collection, customer care and indigent support policy;

**AND WHEREAS** section 97 of the Systems Act prescribes what such policy must provide for;

**NOW THEREFORE** the Municipal Council of Drakenstein Municipality adopts a Customer Care, Credit Control, Debt Collection and Indigent Support Policy as set out in this document.

## TABLE OF CONTENTS

	PAGE
<b>PREAMBLE.....</b>	<b>2</b>
<b>1. DEFINITIONS.....</b>	<b>5</b>
<b>2. GENERAL OBJECTIVES.....</b>	<b>8</b>
<b>3. PRINCIPLES.....</b>	<b>8</b>
<b>4. DUTIES AND FUNCTIONS.....</b>	<b>10</b>
4.1 Duties and functions of Council.....	10
4.2 Duties and functions of Executive Mayor and Mayoral Committee.....	11
4.3 Duties and functions of the Municipal Manager.....	12
4.4 Duties and functions of communities, ratepayers and residents.....	14
4.5 Duties and functions of councillors.....	15
<b>5. PERFORMANCE EVALUATION.....</b>	<b>15</b>
<b>6. REPORTING.....</b>	<b>15</b>
<b>7. CUSTOMER CARE POLICY.....</b>	<b>16</b>
7.1 Objective.....	16
7.2 Communication.....	16
7.3 Metering.....	17
7.4 Accounts and billing.....	18
7.5 Payment facilities and methods.....	19
7.6 Incentives for prompt payment.....	19
7.7 Enquiries, appeals and service complaints.....	20
7.8 Customer assistance programmes.....	21
7.9 Priority customer management.....	25

<b>8.</b>	<b>CREDIT CONTROL POLICY.....</b>	<b>25</b>
<b>8.1</b>	<b>Objective.....</b>	<b>25</b>
<b>8.2</b>	<b>Service application and agreements.....</b>	<b>26</b>
<b>8.3</b>	<b>Right of access to premises.....</b>	<b>26</b>
<b>8.4</b>	<b>Enforcement mechanisms.....</b>	<b>27</b>
<b>8.5</b>	<b>Theft and fraud.....</b>	<b>27</b>
<b>8.6</b>	<b>Customer screening and securities.....</b>	<b>28</b>
<b>8.7</b>	<b>Persons and business who tender to the Municipality.....</b>	<b>29</b>
<b>8.8</b>	<b>Cost of collection.....</b>	<b>30</b>
<b>8.9</b>	<b>The pre-payment meter system.....</b>	<b>30</b>
<b>9.</b>	<b>DEBT COLLECTION POLICY.....</b>	<b>31</b>
<b>9.1</b>	<b>Objective.....</b>	<b>31</b>
<b>9.2</b>	<b>Personal contact.....</b>	<b>31</b>
<b>9.3</b>	<b>Interruption of service.....</b>	<b>32</b>
<b>9.4</b>	<b>Legal process / Use of attorneys / Use of credit bureaus.....</b>	<b>33</b>
<b>9.5</b>	<b>Rates clearance.....</b>	<b>34</b>
<b>9.6</b>	<b>Abandonment of claims.....</b>	<b>34</b>
	<b>ANNEXURE A: Revenue collection targets.....</b>	<b>36</b>
	<b>ANNEXURE B: Arrangements.....</b>	<b>40</b>
	<b>ANNEXURE C: Application for indigent household support.....</b>	<b>46</b>
	<b>ANNEXURE D: Information / conditions of indigent support.....</b>	<b>48</b>
	<b>ANNEXURE E: Household indigent support scheme.....</b>	<b>52</b>
	<b>ANNEXURE F: Application for municipal services.....</b>	<b>53</b>

## CUSTOMER CARE, CREDIT CONTROL, DEBT COLLECTION AND INDIGENT SUPPORT POLICY

### 1. DEFINITIONS

- 1.1 For the purpose of this policy, the wording or any expression has the same meaning as contained in the Act, except where clearly indicated otherwise:
- 1.1.1 **“Act”** The Local Government Act: Systems Act, No 32 of 2000 as amended from time to time.
- 1.1.2 **“Authorised representative”** means a person or instance legally appointed by the Council to act or to fulfil a duty on its behalf.
- 1.1.3 **“Council”** means the Municipal Council of Drakenstein Municipality.
- 1.1.4 **“Customer”** means any occupier of any property to which the municipality has agreed to supply services or already supplies services to, or failing such an occupier, then the owner of the property.
- 1.1.5 **“Defaulter”** means a person who owes money to the municipality after the due date has expired.
- 1.1.6 **“Director”** means a person appointed by Council in terms of Section 56(a) of the Act as a manager directly accountable to the municipal manager.
- 1.1.7 **“Disconnection of electricity supply”** means the physical disconnection of conventional or pre-paid electricity supply or the 100% blocking of pre-paid electricity supply.
- 1.1.8 **“Disconnection of water supply”** means the restriction of the water supply via a trickle system.

- 1.1.9 **“Engineer”** means the person in charge of the civil and / or electrical component of the municipality.
- 1.1.10 **“Equipment”** means a building or other structure, pipe, pump, wire, cable, meter, engine or any accessories.
- 1.1.11 **“Interest”** means a charge levied with the same legal priority as service fees and calculated at a rate determined by Council from time to time on arrear monies.
- 1.1.12 **“Chief Financial Officer”** means the person appointed by Council to administer its finances.
- 1.1.13 **“Municipality”** means the institution that is responsible for the collection of funds and the provision of services to the customers of Drakenstein.
- 1.1.f **“Municipal account”** means an account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and / or assessment rates levies.
- 1.1.15 **“Municipal Manager”** means the person appointed as Municipal Manager in terms of section 82 of the Local Government: Structures Act, 1998, No 117 of 1998, and include any person acting in that position or to whom authority was delegated.
- 1.1.16 **“Municipal services”** means those services provided by the Municipality, such as, *inter alia* the supply of water and electricity, refuse removal, sanitation treatment, and for which services charges are levied.
- 1.1.17 **“Occupier”** means any person who occupies any property or part thereof, without taking cognisance of the title in which he or she occupies the property.



1.1.18 **“Owner”** means:

- (a) The person in whose name the property is legally vested;
- (b) In the case where the person in whose name the property is vested, is insolvent or deceased, or is disqualified in terms of any legal action, the person who is responsible for administration or control of the property as curator, trustee, executor, administrator, legal manager, liquidator, or any other legal representative;
- (c) In the case where Council are unable to establish the identity of such person, the person who are entitled to derive benefit from the property or any buildings thereon;
- (d) In the case of a lease agreement in excess of 30 years was entered into, then the lessee;
- (e) Regarding:
  - (i) A portion of land allotted on a sectional title plan and which is registered in terms of the Sectional Title Act, No 95 van 1986, without limiting it to the developer or managing body to the communal property;
  - (ii) A portion as defined in the Sectional Title Act, the person in whose name that portion is registered in terms of a “sectional title”, including the legally appointed representative of such person;
- (f) Any legal entity including but not limited to:
  - (i) A company registered in terms of the Companies Act, No 61 of 1973; a trust *inter vivos*; a trust *mortis causa*; a closed corporation registered in terms of the Close Corporation Act, No 69 of 1984; and, any voluntary organisation;
  - (ii) Any provincial or national government department, and a local authority;
  - (iii) Any council or management body established in terms of any legal framework applicable to the Republic of South Africa; and
  - (iv) Any embassy or other foreign entity.

1.1.19 **“Property”** any portion of land, of which the boundaries are determined, within the jurisdiction of the Municipality.

1.1.20 “*Tenant*” a person who occupies land or property rented from a landlord

## **2. GENERAL OBJECTIVES**

2.1 The objectives of this policy are:-

- (a) To provide a framework within which the Municipality can exercise its executive and legislative authority with regard to credit control and debt collection;
- (b) To ensure that all monies due and payable to the Municipality are collected and used to deliver services in the best interests of the community; residents and consumers; and, in a financially sustainable manner;
- (c) To provide a framework for customer care;
- (d) To describe credit control measures and sequence of events;
- (e) To outline debt collection procedures and mechanisms;
- (f) To determine indigent relief measures; and
- (g) To set realistic targets for debt collection.

## **3. PRINCIPLES**

- 3.1 The administrative integrity of the Municipality must be maintained at all costs. The democratically elected councillors are responsible for policy-making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- 3.2 All customers must complete an official application form, formally requesting the Municipality to connect them to service supply lines. Existing customers

may be required to complete new application forms from time to time, as determined by the Municipal Manager.

- 3.3 A copy of the application form, conditions of services and extracts of the relevant council's Customer Care, Credit Control, Debt Collection and Indigent Support Policy and by-laws must be handed to every customer on request at such fees as may be determined by Council from time to time.
- 3.4 Billing is to be accurate, timeously and understandable.
- 3.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 3.6 The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.
- 3.7 Enforcement of payment must be prompt, consistent and effective.
- 3.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal services will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- 3.9 Incentives and disincentives determined by Council from time to time may be used in collection procedures.
- 3.10 The collection process must be cost-effective.
- 3.11 Results will be regularly and efficiently reported by the Executive Mayor and Mayoral Committee to Council.
- 3.12 Application forms will be used to, *inter alia*, categorise customers according to credit risk and to determine relevant levels of services and deposits required.

- 3.13 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- 3.14 The principle of providing services instead of payment for arrear accounts is supported.
- 3.15 Consumers that meet Council's indigent criteria must be identified and supported.

## **4. DUTIES AND FUNCTIONS**

### **4.1 Duties and functions of Council**

- (a) To approve a budget consistent with the needs of communities, ratepayers and residents.
- (b) To impose rates and taxes and to determine service charges, fees and penalties to finance the budget.
- (c) To facilitate sufficient funds to give access to basic services for the poor.
- (d) To provide for bad debt provision, in line with the payment record of the community, ratepayers and residents, as reflected in the financial statements of the Municipality.
- (e) To set an improvement target for debt collection, in line with acceptable accounting ratios and the ability of the Implementing Authority. Section 100 of the Act defines the Implementing Authority as the Municipal Manager or service provider appointed by the Municipality collect outstanding debt.
- (f) To approve a reporting framework for customer care, credit control and debt collection.

- (g) To consider and approve by-laws to give effect to this policy.
- (h) To monitor the performance of the Municipal Manager via the Executive Mayor and Mayoral Committee (Supervising Authority) regarding customer care, credit control, debt collection and indigent support.
- (i) To revise the budget should the targets for Council's customer care, credit control, debt collection and indigent support not be met.
- (j) To take disciplinary and / or legal action against councillors, officials and agents who do not execute Council policies and by-laws or act improperly in terms of such policies.
- (k) To approve a list of attorneys that will act for Council in all legal matters relating to debt collection.
- (l) To delegate the required authority to monitor and execute the customer care, credit control, debt collection and indigent support policy to the Executive Mayor and Mayoral Committee, Municipal Manager and Service Provider (if required) respectively.
- (m) To provide sufficient capacity in the Municipality's Directorate: Financial Services to execute customer care, credit control, debt collection and indigent support actions. Alternatively, if required as such, to appoint a Service Provider or debt collection agent to perform these actions.
- (n) To assist the Municipal Manager in the execution of his duties, if and when required.
- (o) To provide funds for the training of staff.

#### 4.2 Duties and functions of Executive Mayor and Mayoral Committee

- (a) To ensure that Council's budget, cash flow and targets for debt collection are met and executed in terms of the policy and relevant by-laws.
- (b) To monitor the performance of the Municipal Manager in implementing this policy and by-laws.
- (c) To review and evaluate the policy and by-laws in order to improve the efficiency of Council's customer care, credit control, debt collection and indigent support procedures, mechanisms and processes.
- (d) To report to Council.

#### 4.3 Duties and functions of the Municipal Manager

- (a) To implement good customer care management systems.
- (b) To implement council's Customer Care, Credit Control, Debt Collection and Indigent Support Policy.
- (c) To install and maintain an appropriate accounting system.
- (d) To provide credible billing to customers.
- (e) To demand payment on due dates.
- (f) To raise penalties / interest for defaults.
- (g) To appropriate payments received.
- (h) To collect outstanding debt through a debt collection management system.
- (i) To provide different payment methods.
- (j) To determine customer care, credit control, debt collection and indigent support measures.

- (k) To determine all relevant work procedures for, *inter alia*, public relations, arrangements, disconnections of services, summonses, attachments of assets, sales in execution, write-off of debts, sundry debtors and legal processes.
- (l) To instruct attorneys to proceed with the legal process (i.e. attachment and sale in execution of assets, emolument attachment orders, etc.).
- (m) To set performance targets for staff.
- (n) To appoint staff to execute Council's policy and by-laws in accordance with Council's recruitment policy.
- (o) To delegate certain functions to directors in charge of directorates.
- (p) To determine control procedures.
- (q) To monitor contracts with Service Providers in connection with credit control and debt collection.
- (r) To report to the Executive Mayor and Mayoral Committee.
- (s) To adhere to the Code of Conduct for Officials.
- (t) To confirm any payment of judgment amounts (or a delegated official) for matters instituted by the court of law.

#### 4.4 Duties and functions of communities, ratepayers and residents

- (a) To fulfil certain responsibilities, as brought about by the privilege and or right to use and enjoy public facilities and municipal services.
- (b) To pay service fees, rates on property and other taxes, levies and duties imposed by the Municipality on or before due date.

- (c) To observe the mechanisms and processes of the Municipality in exercising their rights.
- (d) To allow municipal officials reasonable access to their property to execute municipal functions.
- (e) To comply with the by-laws and other legislation of the Municipality.
- (f) To refrain from tampering with municipal services and property.

#### 4.5 Duties and functions of councillors

- (a) To hold regular ward meetings (Ward Councillors).
- (b) To adhere to and convey council policies to residents and ratepayers.
- (c) To adhere to the Code of Conduct for Councillors.

### **5. PERFORMANCE EVALUATION (Annexure “A”)**

- 5.1 The Municipality must establish a mechanism to set targets for debt collection, customer care and administrative performance, evaluate and take corrective actions on a regular basis to enhance credit control and debt collection.

#### 5.2 Revenue collection targets

- (a) Council to create targets that include the reduction in present monthly increase in debt in line with performance agreements determined by Council.

#### 5.3 Customer service targets

- (a) Council to create targets that would include:



- (i) Response time to customer queries;
  - (ii) Date of first account delivery to new customers;
  - (iii) Reconnection time lapse; and
  - (iv) Meter reading cycle.
- (b) Above-mentioned to be reflected in Standard Operating Procedures of Council.

#### 5.4 Administrative performance

- (a) Council to create targets that will include:
- (i) Cost efficiency of debt collection;
  - (ii) Query and appeal periods and
  - (iii) Enforcement mechanism ratios.

## 6. REPORTING

6.1 The Chief Financial Officer shall report monthly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to the Executive Mayor and Mayoral Committee as Supervisory Authority in terms of section 99 of the Systems Act, read with section 100(c). This report shall contain particulars on:

- (a) Cash collection statistics, showing high-level debt recovery information (numbers of customers; enquires; arrangements; default arrangements; growth or reduction of arrear debt). Where possible, the

statistics should ideally be divided into wards, business (commerce and industry), domestic, state, institutional and other such divisions; and

- (b) Performance of all areas against targets agreed to in paragraph 5 of this policy document.

6.2 If in the opinion of the Chief Financial Officer, Council will not achieve cash receipt revenue equivalent of the revenue projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the Municipal Manager who will, if he / she agrees with the Chief Financial Officer, within legislative prescripts, immediately move for a revision of the budget according to realistically realisable income levels.

6.3 The Executive Mayor and Mayoral Committee as Supervisory Authority shall, at least at intervals of 3 months, report to Council as contemplated in section 99(c) of the Systems Act.

## **7. CUSTOMER CARE POLICY**

### **7.1 Objective**

To focus on the client's need in a responsible and pro-active way, to enhance the payment for services and to create a positive and co-operative relationship between the persons responsible for the payment for services received and the Municipality, and where applicable, any service provider.

### **7.2 Communication**

- (a) The Municipality will, within its financial and administrative capacity, conduct an annual process of compiling and communicating its budget, which will include targets for credit control.

- (b) Council's Customer Care, Credit Control, Debt Collection and Indigent Support Policy or relevant extracts thereof, will be available in English (Xhosa and Afrikaans on request) and will be made available by general publication and on specific request, and will also be available for perusal at Council's offices.
- (c) Council will endeavour to distribute a regular newsletter, which will give prominence to customer care and debt issues, in a cost effective manner.
- (d) Ward councillors will be required to hold regular ward meetings, at which customer care and debt collection issues will be given prominence.
- (e) The press will be encouraged to give prominence to Council's Customer Care, Credit Control, Debt Collection and Indigent Support Policy, and will be invited to Council or Committee meetings where these are discussed.
- (f) Council will endeavour to create partnerships with civil society organisations in promoting customer care, credit control, debt collection and indigent support issues.

### 7.3 Metering

- (a) The Municipality will endeavour, within practical and financial limits, to provide meters to every paying client for all consuming services.
- (b) All meters will be read monthly, if at all possible. If meters are not read on a monthly basis, Council will estimate the consumption in terms of Council's operational procedures.
- (c) Customers are entitled to request verification of meter readings and accuracy within reason, but may be held liable for the cost thereof.
- (d) Customers will be informed of a meter replacement.

- (e) If a service is metered but it cannot be read due to financial and human resource constraints or circumstances out of the control of the Municipality or its authorised agent, and the customer is charged for estimated consumption, the account following the reading of the metered consumption must articulate the difference between the actual consumption and the average consumption, and the resulting credit or debit adjustments.

#### 7.4 Accounts and billing

- (a) Customers on the billing system will receive an understandable and accurate bill from the Municipality, which bill will consolidate all service costs for that property.
- (b) Accounts will be produced in accordance with the meter reading cycle and due dates will be linked to the statement date.
- (c) Accounts will be rendered monthly in cycles of approximately 30 days at the address last recorded with the Municipality or its authorised agent.
- (d) It is the customer's responsibility to ensure that postal address and other contact details are correct.
- (e) It is the customer's responsibility to ensure timeous payment in the event of accounts not received.
- (f) Settlement or due dates will be as indicated on the statement.
- (g) Where an account is not settled in full, any lesser amount tendered and accepted shall not be deemed to be in full and final settlement of such an account.

- (h) Where any payment made to the Municipality or its authorised representative by negotiable instrument is later dishonoured by a bank, the municipality or its authorised agent:
  - (i) May recover the average bank charges incurred relating to dishonoured negotiable instruments against the account of the customer; and
  - (ii) Shall regard such an event as a default on payment.
- (i) The Municipality or its authorised agent must, if administratively possible, issue a duplicate account to a customer on request, at a cost determined by Council from time to time.
- (j) The Municipality will no longer open accounts for water and electricity for tenants as from 01 July 2016. All new services connections after 01 July 2016 shall be levied on the owner's accounts. The existing tenant accounts will thus be phased out as tenants are moving out.

#### 7.5 Payment facilities and methods

- (a) The Municipality will operate and maintain suitable payment facilities (internet payment facilities included), and which facilities will be accessible to all users.
- (b) The Municipality will at its discretion allocate a payment between service debts and a debtor, who has overdue debt, may not specify that the payment is for a specific portion of the account.
- (c) The Municipality may in terms of section 103 of the Systems Act, with the consent of a customer, approach an employer to secure a debit or stop order arrangement.

- (d) The customer will acknowledge, in the customer's agreement that the use of customer agents in the transmission of payments to the municipality is at the risk of the customer – also for the transfer time of the payment.

#### 7.6 Incentives for prompt payment and final settlements

- (a) Council may, to encourage prompt payment and / or to reward regular payers, consider from time to time incentives for the prompt payment of accounts or payment by debit or stop order.
- (b) Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.
- (c) The Chief Financial Officer may accept full and final settlement offers arising from a dispute, where the last 12 months surcharges and interest may be waived after full payment has been made upon resolving the dispute.
- (d) The Chief Financial Officer may reverse interest and surcharges levied for a late payment, where a consumer was promptly paying an account for the last 12 months prior to the late payment.

#### 7.7 Enquiries, appeals and service complaints

- (a) Within its administration and financial ability the Municipality will establish:
  - (i) A central complaints / feedback office;
  - (ii) A centralised complaints database to enhance co-ordination of complaints, their speedy resolution and effective communication with customers;

- (iii) Appropriate training for officials dealing with the public to enhance communications and service delivery; and
  - (iv) A communication mechanism to give council feedback on service, debt and other issues of concern.
- (b) If a customer is convinced that his or her account is inaccurate, he or she can lodge a query with the Municipality for investigation of this account, and where necessary the relevant alterations.
- (c) In the interim the debtor must pay the average of the last three months accounts where such history of the account is available. Where no such history is available, the debtor is to pay an estimate provided by the Municipality before payment due date until the matter is resolved.
- (d) The relevant department will investigate and inform the debtor within the period specified herein, as determined by the Municipal Manager from time to time.
- (e) Failure to make such agreed interim payment or payments will result in the customer forming part of the normal credit control procedures.
- (f) A customer or its authorised agent may appeal against the findings of the Municipality in terms of subparagraph (d).
- (g) An appeal and request in terms of subparagraph (f) must be made and lodged with the municipality within 21 (twenty-one) days after the customer became aware of the finding referred to in subparagraph (d) and must:
  - (i) Set out the reasons for the appeal; and
  - (ii) Be accompanied by any security determined for the testing of a measuring device, if applicable.

## 7.8 Customer assistance programmes

### 7.8.1 Water Leakages

- (a) If the leakage is on the customer's side of the meter, the customer will be responsible for the payment of all water supplied to the property.
- (b) Where the consumer can provide an invoice and proof of payment from the service provider (e.g. Plumber) that repaired the leakage, the municipality may at its sole discretion provide relief based on a calculation to be done on the corresponding months of the previous' years consumption to determine the water lost due to the leak.
- (c) The calculated consumption will be deducted from the higher leakage amount, where after the balance will be payable by the consumer.
- (d) Should the leakage be for more than a year or two years, then the consumption will be monitored for 3 months after the leakage has been repaired, where after the account will be rectified as per above paragraph (d).
- (e) Where there is an abnormal water consumption that cannot be substantiated after the meter test results are obtained, the Executive Manager: Infrastructure or his delegated official must furnish the Chief Financial Officer with a recommendation in terms of reducing the consumption in line with the consumer's average consumption for the previous 12 months.
- (f) The customer has the responsibility to control and monitor his / her water consumption.

### 7.8.2 Property rate rebates



- (a) Properties used exclusively for residential purposes may qualify for a rebated rate determined annually by Council.
- (b) A rate rebate may be granted according to certain qualifying criteria to social pensioners or the receiver of a State disability grant and / or any category of customer, as determined by Council from time to time.
- (c) These rebates will be determined as per Council's Property Rates Policy.

#### **7.8.3 Arrangements for default settlements (Annexure "B")**

- (a) Customers with electricity and water arrears must agree to the conversion to a prepayment meter, if and when implemented the cost of which, and the arrears total, will be paid off either by:
  - (i) Adding the debt to the arrears bill and repaying it over the agreed period; or
  - (ii) Adding the debt as a surcharge to the prepaid electricity or water cost, and repaying it with each purchase of electricity and water until the debt is liquidated (Refer to paragraph 8.9 of this policy for percentages).
- (b) In the case of households qualifying for indigent support, the conversion costs to a prepayment meter will be funded through that portion of the equitable share contribution to the Municipality made from the national government's fiscus and as provided for in the budget.
- (c) Council reserves the right to raise the deposit requirement of debtors who seek arrangements.

#### **7.8.4 Rates by instalments**

- (a) Payment arrangements are determined as per Council's Property Rates Policy.

**7.8.5 Indigent support (Annexures "C", "D" and "E")**

- (a) The purpose of the indigent support is to provide funding for a basic level of services to qualifying households with a total gross income level which is below a determined amount, and according to further specified criteria as determined by Council from time to time.
- (b) The source of funding of the indigent support is that portion of the equitable share contribution to the Municipality made from the national government's fiscus and as provided for in the budget. As such, the subsidy can only be credited to qualifying customers' accounts until the amount received by the Municipality from National Government for this purpose has been exhausted, whereupon no further credits will be made, or the level of the credits reduced, until further national funds are received.
- (c) Subsidised services may include sewerage, refuse removal, assessment rates, housing rental levies and consumption service charges.
- (d) If a consumer's consumption or use of the municipal service is less than the subsidised service, the unused portion may not be accrued by the customer and will not entitle the customer to cash or a rebate in respect of the unused portion.
- (e) If a customer's consumption or use of a municipal service is in excess of the subsidised service, the customer will be obliged to pay for such excess consumption at the applicable rates.
- (f) All consumes who qualify for an equitable share subsidy will be placed on restricted service levels in order to limit further escalation of debt.

- (g) Where applicable, these consumers may be exonerated from a portion of their arrear debt.
- (h) Where a qualifying customer's account is paid in full at the date of application, or regularly maintains a paid up account after receiving the subsidy, the restriction on service levels will be waived.
- (i) An indigent customer must immediately request de-registration by the municipality or its authorised agent if his / her circumstances have changed to the extent that he / she no longer meets the criteria.
- (j) An indigent customer may at any time request de-registration.
- (k) A list of indigent customers will be maintained and may be made available to the general public.

#### 7.8.6 Additional subsidy categories

- (a) Council may provide, free of charge to a customer, certain basic levels of water and electricity, as determined from time to time.
- (b) Council may provide grants *in lieu* of rates to certain categories of owners of domestic properties to alleviate poverty.
- (c) Rebates may be granted to sporting bodies for consumption but tariffs would at least cover the cost of the service.
- (d) Rebates may be granted to large customers to attract business to Drakenstein that would benefit the community of Drakenstein.

#### 7.8.7 Customer categories

- (a) Customers will be categorised according to specific classifications based on *inter alia* the type of entity and applicable tariffs and risk levels. Processes for credit control, debt collection and customer care

may differ from category to category, as deemed appropriate from time to time by the Municipal Manager.

#### 7.9 Priority customer management

- (a) Certain customers will be classified as priority customers based on criteria determined by the Municipal Manager from time to time, such as the number of properties owned or volume of consumption.
- (b) A Priority Customer Liaison Officer or person nominated by the Municipal Manager will be responsible for the ongoing management of the customers so classified and will perform tasks such as the review of monthly accounts to ensure accuracy, the monitoring of prompt settlement of accounts and response to queries.

### **8 CREDIT CONTROL POLICY**

#### 8.1 Objective

- (a) To implement procedures which ensure the collection of debt, meeting of service targets and the prevention of escalation in arrear debt.
- (b) To facilitate financial assistance and basic services for the community's poor and provide incentives for prompt payment as well as ensuring limited risk levels by means of effective management tools.

#### 8.2 Service application and agreements (Annexure "F")

- (a) All customers of services will be required to sign an agreement governing the supply and cost of municipal services (Annexure "F" or similar agreement). Owners may allow a tenant to sign a separate agreement with the Municipality, which the Municipality may at its own

discretion accept or reject. On default by a tenant, the owner will be the debtor of last resort.

- (b) Prior to signing these agreements, customers will be entitled to receive the policy document of the Council on request at a cost determined by Council.
- (c) On the signing of the agreement, customers will receive a copy of the agreement for their records.
- (d) Customers are responsible for costs of collection, interest and penalties in the event of delayed and / or non-payment.
- (e) Existing customers of services will be required to sign new agreements as determined by the Municipal Manager from time to time. This will particularly be in the case of defaulters.

### 8.3 Right of access to premises

- (a) The owner and or occupier of property is to allow an authorised representative of the Municipality access at all reasonable hours to the property in order to read, inspect, install or repair any meter or service connection for reticulation, or to disconnect, stop or restrict, or reconnect, the provision of any service.
- (b) The owner is responsible for the cost of relocating a meter if satisfactory access is not possible.
- (c) If a person fails to comply with the Municipality or its authorised representative, the Municipality may:
  - (i) By written notice require such person to restore access at his / her own expense within a specified period; and

- (ii) If it is the opinion that the situation is a matter of urgency, without prior notice restore access and recover the cost from such person.

#### 8.4 Enforcement mechanisms

- (a) Interest and surcharges will be raised as a charge on all accounts not paid by the due date in accordance with applicable legislation.
- (b) The Municipality shall have the right to restrict or discontinue the supply of services or to implement any other debt collection action necessary due to late or non-payment of accounts, relating to any consumer, owner or property.

#### 8.5 Theft and fraud

- (a) Any person (natural or juristic) found to be illegally connected or reconnected to municipal services, tampering with meters, the reticulation network or any other supply equipment or committing any unauthorised act associated with the supply of municipal services, as well as theft of and damage to Council property, will be prosecuted and / or is liable for penalties as determined by Council from time to time.
- (b) Any member of the local community that supply information with regard to any of the illegal actions as set out in subparagraph a above, and the information when verified found to be true, will upon authorisation by the Municipal Manager be rewarded as determined by Council from time to time. The name of the informant and the information supplied will at all times be kept confidentially so as to protect the informant against any retaliatory action.
- (c) Council will immediately terminate the supply of services to a customer should such conduct as outlined above, be detected.

- (d) The total bill owing, including penalties, assessment of unauthorised consumption and discontinuation and reconnection fees, and increased deposits as determined by Council, if applicable, will be due and payable before any reconnection can be sanctioned.
- (e) Council will maintain monitoring systems in order to identify customers who are undertaking such illegal actions.
- (f) Council reserves the right to lay criminal charges and / or to take any other legal action against both vandals and thieves.
- (g) Any person failing to provide information or providing false information to the municipality may face immediate disconnection and / or legal action.

#### 8.6 Customer screening and securities

- (a) All applicants for municipal services may be checked for credit-worthiness including checking information from banks, credit bureaus, other local authorities, trade creditors and employers.
- (b) Deposits either in cash or any other security acceptable to the Municipality will be required, and may vary according to the risk as determined by the Municipality. A minimum deposit of the equivalent of two months average consumption will be required.
- (c) Deposits can be increased by the municipality at any time and at the sole discretion of the Municipality to a maximum of three months average consumption.
- (d) Deposits can vary according to the credit-worthiness or legal category of the applicant.

- (e) The Municipality will not pay any interest on deposits.
- (f) On the termination of the agreement the amount of the deposit, less any outstanding amount due to the Municipality, will be refunded to the consumer.

#### 8.7 Persons and business who tender to the Municipality

- (a) The Supply Chain Management Policy and Tender Conditions of the Municipalities will include the following:
  - (i) When inviting tenders for the provision of services or delivery of goods, potential contractors may submit tenders subject to a condition that consideration and evaluation thereof will necessitate that the tenderer obtain from the Municipality a certificate stating that all relevant municipal accounts owing by the tenderer and / or its directors, owners or partners have been paid or that suitable arrangements (which include the right to set off in the event of non-compliance) have been made for payment of any arrears;
  - (ii) No tender will be allocated to a person / contractor until a suitable arrangement for the repayment of arrears, has been made. No further debt may accrue during contract period; and
  - (iii) A condition allowing the Municipality to deduct any moneys owing to the Municipality from contract payments.

#### 8.8 Cost of collection

- (a) All costs of legal processes, including interest, penalties, service discontinuation costs and legal costs associated with customer care or credit control, where ever applicable, are for the account of the debtor and should reflect at least the cost of the particular action.



## 8.9 The pre-payment meter system

- (a) The Municipality will use its pre-payment system to:
  - (i) Link the provision of electricity and water by the Municipality to a “pre-payment” system comprising, first, a pre-payment of electricity kWh and water kilolitres; and
  - (ii) A payment in respect of arrears comprising a “package” of accrued municipal taxes and other municipal levies, tariffs and duties in respect of services such as water, refuse removal, sanitation and sewage.
- (b) A customer with arrears incurred since the January 2013 billing run who opts for the pre-payment system, will be required to repay all arrears in full before any amount is allocated to an electricity pre-payment, or, if the amount outstanding is large and / or the customer’s ability to pay is limited (because of low income, cash flow problems etc), to pay the arrears by allocating a percentage of all monies offered for purchases towards the arrears, as set out below, before any electricity credit is given:
  - (i) 30 days and older = 50%;
  - (ii) 60 days and older = 60%;
  - (iii) 90 days and older = 70%; and
  - (iv) 120 days and older = 80%.
- (c) In cases where the 80% blocking methodology is not adequate to decrease the outstanding debt the pre-paid metering system shall be blocked at 100% or the electricity supply shall be disconnected.

## **9. DEBT COLLECTION POLICY**

### **9.1 Objective**

To provide procedures and mechanisms to collect all the monies due and payable to Council arising out of the supply of services and annual levies, in order to ensure financial sustainability and delivery of municipal services in the interest of the community.

### **9.2 Personal contact**

- (a) Telephonic contact, agents calling on clients:
  - (i) Council will endeavour, within the constraints of affordability, to make personal or telephonic contact with all arrear debtors to encourage their payment, and to inform them of their arrears state, their rights (if any) to conclude arrangements or to indigent support, other related matters and will provide information on how and where to access such arrangements or subsidies; and
  - (ii) Such contact is not a right for debtors to enjoy and disconnection of services and other collection proceedings may continue in the absence of such contact for whatever reason.

### **9.3 Interruption of service**

- (a) Customers who are in arrears with their municipal account and who have not made arrangements with the Council will have their supply of electricity suspended or disconnected.

- (b) The disconnection of electricity services may happen when the municipal account is 1 (one) day overdue.
- (c) A fourteen (14) day disconnection notice will be issued for the first default. If a consumer defaults again in the following month, then a seven (7) day disconnection notice will apply.
- (d) Council reserves the right to deny or restrict the sale of electricity to customers who are in arrears with their rates or other municipal charges.
- (e) Upon the liquidation of arrears, or the conclusion of acceptable arrangements for term payment, the electricity service will be reconnected as soon as conveniently possible.
- (f) The cost of the restriction or disconnection, and the reconnection, will be determined by tariffs approved by Council, and will be payable by the customer.
- (g) The deposit of any defaulter may be adjusted to bring into line with relevant policies.

#### 9.4 Legal process / Use of attorneys / Use of credit bureaus

- (a) Council may, when a debtor is in arrears, commence legal process against that debtor, which process could involve final demands, summonses, court trials, judgements, garnishee orders and / or sales in execution of property.
- (b) Council will exercise strict control over this process, to ensure accuracy and legality within it, and will require regular reports on progress from outside parties, be they attorneys or any other collection agents appointed by Council.

- (c) Council will establish procedures and codes of conduct with these outside parties.
- (d) Garnishee orders, in the case of employed debtors, are preferred to sales in execution, but both are part of Council's system of debt collection procedures.
- (e) All steps in the customer care and credit control procedure will be recorded for Council's records and for the information of the debtor.
- (f) All costs of this process will be for the account of the debtor.
- (g) Individual debtor accounts are protected and are not the subject of public information. However Council may release debtor information to credit bureaus. This release will be in writing or by electronic means.
- (h) Council may consider the cost effectiveness of the legal process, and will receive reports on relevant matters, including cost effectiveness.
- (i) Council may consider the use of agents as service providers and innovative debt collection methods and products. Cost effectiveness, the willingness of agents to work under appropriate codes of conduct and the success of such agents and products will be part of the agreement Council might conclude with such agents or service providers; and will be closely monitored by Council
- (j) Customers will be informed of the powers and duties of such agents or service providers and their responsibilities including their responsibility to observe agreed codes of conduct.
- (k) Any agreement concluded with an agent, service provider or product vendor shall include a clause whereby breaches of the code of conduct by the agent or vendor will constitute a breach of the contract.

## 9.5 Rates clearance

- (a) On the sale of any property in the municipal jurisdiction, Council will withhold the transfer until all rates and service charges are paid by withholding a rates clearance certificate as contemplated in section 118 of the Act.
- (b) The amount for the period prior to section 118 of the Municipal Systems Act, will be handed over for legal collection where the new and previous owner could be held liable for payment of these amounts.

## 9.6 Abandonment of claims

- (a) The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt.
- (b) There are some circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Act, such as:
  - (i) The insolvency of the debtor, whose estate has insufficient funds;
  - (ii) A balance being too small to recover, for economic reasons, considering the cost of recovery; and
  - (iii) Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- (c) The Municipality will maintain audit trails in such an instance, and document the reasons for the abandonment of the action or claim in respect of the debt.
- (d) Procedures for the abandonment of claims are determined in the Writing-Off of Irrecoverable Debt Policy.

## ANNEXURE "A"

### **REVENUE COLLECTION TARGETS**

1. Computerised credit control and debt collection management system
  - 1.1 It is Council's intention to collect all revenue due to Council from customers who can afford to pay.
  - 1.2 For this purpose it is acknowledged that the Municipality is in need of a computerised credit control and debt collection management system.
  - 1.3 This system will be procured through the supply chain management process or alternatively the Municipal Manager may obtain the services of an external service provider to perform this function.
2. Payment level on current accounts
  - 2.1 The total outstanding debtors as at 31 January 2016 amounted to R 288,738,291 of which R 105,544,562 represented current debtors (January 2016 billing run levies) and R 183,193,729 represented arrear debtors.
  - 2.2 It is acknowledged that the current payment level of all customers for the first six months of the 2015/2016 financial year was 93.75%.
  - 2.3 It is Council's intention to increase the payment level by 0.2% every 3 months until a 100% payment level of all customers who can afford to pay has been reached.
3. Recovery of arrears (Accumulated before the January 2013 billing run)

- 3.1 The Municipal Council approved on 27 February 2013 a Policy on the Writing-Off of Irrecoverable Debt with the following two incentives to their customer base to assist them to get out of their spiral of debt provided that all levies since the January 2013 billing run is paid up to date:
- (a) Council will write-off 50% of the outstanding debt before the January 2013 billing run if a customer (all customers except for government or school debtors who are treated on an *ad hoc* basis) will pay the other 50% of the outstanding debt; and
  - (b) Council will write-off any outstanding debt before the January 2013 billing run that a household customer accrued that the household customer cannot afford to pay back over the next three years after his arrear and current payments has been capped at 20% of the household income.
- 3.2 To collect with the assistance of a computerised credit control and debt collection management system or an appointed service provider, all recoverable arrears over a maximum period of three years by using the incentives in the Writing-Off of Irrecoverable Debt Policy. Irrecoverable arrears (estimated between 40% and 60% of the arrear debtors' book) will have to be written-off.
- 3.3 To achieve this goal the level of recovery of recoverable arrears (writing-off incentives included) should be:
- (a) Within 6 months = 20%
  - (b) 7 to 12 months = 20%
  - (c) 13 to 18 months = 20%
  - (d) 19 to 24 months = 20%

(e) 25 to 36 months = 20%

3.4 The Senior Manager: Revenue and Expenditure or delegated person can in extreme cases accept a longer period of repayment based on the financial position of the customer and other circumstances if the incentives in the Writing-Off of Irrecoverable Debt Policy do not assist the customer to get out of their spiral of debt within three years.

4. Recovery of arrears (Accumulated after the January 2013 billing run)

4.1 It is acknowledged that not all customers might have been in arrears before the January 2013 billing run. Customers who accumulated arrears as from the January 2013 billing run will be recovered over a maximum period of one year.

4.2 To achieve this goal the level of recovery should be:

(a) Within 6 months = 50%;

(b) 7 to 9 months = 30%; and

(c) 10 to 12 months = 20%.

5. Customer service targets

(a)	Response time to customer queries:	Initial response within 5 working days
(b)	Date of first account delivery to new customers:	By second billing cycle after date of application or occupation which ever is the latest
(c)	Reconnection time:	Within 24 hours after appropriate payment / arrangement
(d)	Electricity meter reading cycle:	90% of meters being read on a monthly basis with a maximum of 3 consecutive months estimated
(e)	Water meter reading cycle:	80% of meters being read on a monthly basis with a maximum of 3 consecutive months estimated



6. Administrative performance targets

6.1 Cost Efficiency of Debt Collection:

- (a) Cost efficiency of debt collection:
  - (i) Cost of collection not to exceed the capital debt amount;
  - (ii) All reasonable steps to be taken to limit cost to Council or the customer;
  - (iii) Cost of collection is to be recovered from the defaulting customers; and
  - (iv) Total cost of collection to be recovered by means of applicable credit control tariffs.

6.2 Query and appeal periods:

- (a) Forty five (45) working days to resolve queries and appeals through Council committees, the Executive Mayor and Mayoral Committee and Council.

## **ANNEXURE “B”**

### **1. ARRANGEMENTS**

1.1 If a customer cannot pay his / her account with the Municipality then the Municipality may enter into an extended term of payment not exceeding 36 months (arrears before the January 2013 billing run) or 12 months (arrears after the January 2013 billing run) with the customer. The customer must:

- (a) Sign an acknowledgement of debt;
- (b) Sign consent to judgement;
- (c) Provide a garnishee order / emolument order / stop order (if he or she is in employment);
- (d) Acknowledge that interest will be charged at the prescribed rate;
- (e) Pay the current portion of the account in cash;
- (f) Sign an acknowledgement that, if the arrangements being negotiated are later defaulted on, that no further arrangements will be possible and that disconnection of water and electricity will follow immediately, as will legal proceedings; and
- (g) Acknowledge liability of all costs incurred.

1.2 Consumer to agree to signing an electronic Acknowledgement of Debt form which stipulates all of the above and acknowledges the arrangements made.

## **2. THE FOLLOWING ACCEPTABLE ARRANGEMENTS CAN BE ENTERED INTO WITH:**

### **2.1 Domestic consumers (with arrears before the January 2013 billing run)**

- (a) The prescripts of the Writing-Off of Irrecoverable Debt Policy will be used to determine the acceptable arrangements on arrears.
- (b) The customer may have three accounts in making such acceptable arrangements. A current account that must be paid up to date on a monthly basis, a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 36 months and a suspended account that will carry the calculated arrear amount to be written-off over 36 months.
- (c) Where the 20% of the gross salary of the consumer, does not cover the monthly account, the whole account will be placed on an abeyance account to be written off over a 3 year period, with the proviso that the monthly account is paid up to date every month.
- (d) The suspended accounts will bear no interest on arrears.

### **2.2 Domestic consumers (with arrears accumulated after the January 2013 billing run)**

- (a) A down payment of twenty per cent (20%) of outstanding debt plus the cost of the credit control actions. The balance of the outstanding debt will be repayable over a maximum period of 12 months.
- (b) The consumer deposit to be increased up to the minimum as determined annually and published in the tariff list. For consumers that persist to default the consumer deposit will be increased up to the limit as determined and published in the tariff list.

2.3 Churches, welfare organisations, sporting bodies, emerging farmers, etcetera (with arrears before the January 2013 billing run)

- (a) The prescripts of the Writing-Off of Irrecoverable Debt Policy will be used to determine the acceptable arrangements on arrears.
- (b) The customer may have two accounts in making such acceptable arrangements. A current account that must be paid up to date on a monthly basis and a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 12 months.
- (c) The suspended account will bear no interest on arrears.

2.4 Churches, welfare organisations, sporting bodies, emerging farmers, etcetera (with accumulated arrears after the January 2013 billing run)

- (a) A down payment of twenty per cent (20%) of outstanding debt plus the cost of the credit control actions. The balance of the outstanding debt will be repayable over a maximum period of 12 months.
- (b) The consumer deposit to be increased up to the minimum as determined annually and published in the tariff list. For consumers that persist to default the consumer deposit will be increased up to the limit as determined and published in the tariff list.

2.5 Business, industrial and agriculture customers (with arrears before the January 2013 billing run)

- (a) The prescripts of the Writing-Off of Irrecoverable Debt Policy will be used to determine the acceptable arrangements on arrears.
- (b) The customer may have two accounts in making such acceptable arrangements. A current account that must be paid up to date on a

monthly basis and a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 6 months.

- (c) The suspended account will bear no interest on arrears.

2.6 Business, industrial and agriculture customers (with accumulated arrears after the January 2013 billing run)

- (a) A down payment of twenty per cent (20%) of outstanding debt plus the cost of the credit control actions. The balance of the outstanding debt will be repayable over a maximum period of 6 months.
- (b) The consumer deposit shall be increased up to the minimum as determined annually and published in the tariff list. For consumers that persist to default the consumer deposit shall be increased up to the limit as determined and published in the tariff list.

2.7 Government departments and schools

- (a) 1st default in financial year:
  - (i) Three (3) weeks' notice – no arrangements; and
  - (ii) Deposit shall be adjusted to 3 months consumption.
- (b) 2nd default in financial year:
  - (i) Two (2) weeks' notice – no arrangements; and
  - (ii) Deposit shall be adjusted to 3 months consumption.
- (c) 3rd default in financial year:
  - (i) Forty eight (48) hours' notice – no arrangements; and

- (ii) Deposit shall be adjusted to 3 months consumption.

## 2.8 Administrations

2.8.1 Where a person has been placed under administration the following procedures will be followed:

- (a) The debt as at the date of the administration court order will be placed on hold, and collected in terms of the court order by the administrator's dividend;
- (b) The administrator is to open a new account on behalf of the debtor, with an updated deposit. No account is to be opened / operated in the debtor's name as the debtor is not entitled to accumulate debt (refer section 74S of the Magistrates Courts, No 32 of 1944;
- (c) Until such time as this new account is opened, the debtor is to be placed on limited service levels. The consumer will be compelled to install a prepaid electricity and water meter, should one not already be in place. The Municipality will be entitled to recover the cost of the basic services by means of purchases made on the prepaid meter/s; and
- (d) Should there be any default on the current account, the supply of services is to be limited or terminated, and, the administrator handed over for the collection of this debt.

## 6. Indigent households

- (a) All consumers qualifying as indigent households will receive monthly indigent support provided that a pre-paid water and pre-paid electricity meter have been installed on Council's cost. All arrear debt will be written-off as a once-off exercise per financial year.

- (b) Council acknowledges that pre-paid water and electricity meters cannot be installed at once and that this can only be done as and when the operating budget of the Municipality has available funds to install these meters.
- (c) Council also acknowledges that indigent households cannot afford to replace broken conventional and pre-paid electricity and water meters with new ones. They are also not in a financial position to replace broken electricity and water connections as well as to pay for minor repairs to sewerage connections and blockages. For this purpose Council will budget in their operating for such costs. Pre-paid electricity and water meters and minor repairs to service connections may therefore be done from Council's budgeted funds provided that the relevant Executive Manager has motivated such a request, that adequate funds on the operating budget is still available and that the Municipal Manager or Chief Financial Officer has approved such a request.

## ANNEXURE "C"

### DRAKENSTEIN MUNICIPALITY

ACCOUNT NO.: \_\_\_\_\_

#### APPLICATION FOR HOUSEHOLD INDIGENT SUPPORT

1. In an effort to assist the needy population in the payment of basic municipal services, as detailed in the enclosed pamphlet, the Municipal Council of Drakenstein Municipality has agreed to a subsidy scheme whereby households earning less than R 3,750 per month (2 x old age or social grant pension amount approved by the Minister of Finance plus 25%) will have certain services fully or partly subsidised.
2. Please read the back of this form to see if you qualify and what documents or forms you are required to submit with this application. If you feel that you do qualify, you must complete the details of all the occupants (owner / spouse / tenants) who are responsible for the payment of municipal services on a property as at       (Date)       or from the date of this application, together with their respective gross monthly incomes, in the space below.

#### PERSONAL PARTICULARS OF ALL OCCUPANTS RESPONSIBLE FOR PAYING THE MUNICIPAL SERVICES \_\_\_\_\_ (Address)

	IDENTITY NUMBER	INITIALS	SURNAME	EMPLOYED (YES/NO)	EMPLOYER NAME	GROSS MONTHLY INCOME	SOURCE OF INCOME
1							
2							
3							
4							

#### DECLARATION BY APPLICANT

I, the undersigned, resident at the address indicated above, hereby apply for the Household Indigent Support determined in relation to the income indicated above, and solemnly declare that -

- (a) All particulars furnished on this form, including the total gross income of myself and all occupants of the premises, are to the best of my knowledge and belief, true and correct;
- (b) If the particulars furnished in this form should change for any reason, I will immediately notify Council;
- (c) I am aware that the information supplied in this form by me will be made available by Council to the Credit Bureau;



- (d) I or any other occupant do not own any other property in the Republic of South Africa apart from the property indicated on the account for which this application is made;
- (e) I agree that Council officials may conduct an on-site audit to verify the information supplied on this declaration;
- (f) I am aware that any false declaration on this form is punishable by law and will result in disqualification of the subsidy; and
- (g) I do hereby acknowledge that the debts in respect of the arrears amounting otherwise to     (Rand)     as at     (Date)     (together with interest accrued at the standard interest rate) on the account number indicated above remain payable by me unless Council resolves otherwise.

---

**Date**

---

**Signature / Thumb Print of Applicant**

---

**FOR OFFICE USE ONLY**

The consequences of the above declaration made by the applicant were explained to him/her and he/she indicated that -

- (a) The contents of the declaration were understood; and
- (b) If found to be untrue, he/she would automatically be disqualified from receiving any indigent support. He/she will be liable for the immediate repayment of any indigent support received and may have criminal proceedings instituted against him/her as Council may deem fit.

Municipal Attesting Officer

---

**Date**

---

**Signature**

## ANNEXURE "D"

### INFORMATION / CONDITIONS OF INDIGENT SUPPORT

The application form together with the documents indicated below must be brought by the account holder (i.e. the person in whose name the account is rendered) to one of the council's offices indicated in the enclosed pamphlet. Prospective applicants must apply at the venues designated in their respective areas and not at any other places.

1. Who qualifies?

A household (main bread winner/s of a household), residing on an erf, earning a combined gross income of equal or less than two times the monthly government social grant paid to old age pensioners or disabled persons plus 25%.

2. Who does not qualify?

(a) A household on a single erf whose combined gross income exceeds the amount of two times the monthly government social grant amount paid to old age pensioners or disabled persons plus 25%.

(b) Occupants / residents who owns more than one property.

(c) A household consuming more than 400 kWh units of electricity per month or those who supply electricity to back yarders (800 kWh) per month will still qualify to purchase electricity at the lifeline tariff but for the consumption above 400 kWh units of electricity per month will pay the normal electricity tariff.

3. Documentary proof of income and marital status (e.g. letter from an employer, salary advice, pension card, UIF card etc.) must be presented in order to qualify for indigent support.

4. In addition, applicants will be required to sign and submit a sworn affidavit to the effect that all information supplied is true and that all income from formal and / or

informal sources has been declared. Special note should be taken that any person who supplies false information will be disqualified from further participation in the indigent support scheme. He / she will also be liable for the immediate repayment of all indigent support received and the institution of criminal proceedings, as Council may deem fit.

5. Council reserves the right to send officials to premises / households receiving relief for the purpose of conducting an on-site audit of the details supplied.
6. The account holder must apply in person and must present the following documents upon application:
  - (a) The latest municipal account in his / her possession;
  - (b) The account holder's identity document; and
  - (c) An application form indicating the names and identity numbers of the occupants who are responsible for the payment of the municipal services rendered to the residents at the property.
7. If the application is approved, the indigent support will only be valid until the end of the financial year for which the indigent application has been evaluated with no guarantee of renewal, as it is funded by a grant from National Government to the Municipality. The onus is on account holders to re-apply for relief each year, failing which the assistance will cease automatically.
8. The following services will be subsidised:
  - (a) Water (up to 10 kilolitres per month). Consumption exceeding 10 kiloliters will be payable by the customer.
  - (b) Electricity (up to 100 kWh per month). Consumption exceeding 100 kWh will be payable by the customer.

- (c) Sewerage / sanitation.
  - (d) Refuse removal.
  - (e) Property rates to the extent that is determined in the Property Rates Policy of Council.
  - (f) Housing rental levies to the extent that the services portion levied will be in line with the restrictions in paragraph 8(a) to (e) above.
9. Support to retired and disabled persons who just fall outside the indigent household bracket referred to in paragraph 1 and 2 above.
- (a) Council may consider supporting retired and disabled persons households who just falls outside the indigent household bracket of two times the monthly government social grants paid to old age pensioners or disabled persons.
  - (b) These cases will be seen as special merit non-indigent household cases to be considered on an *ad hoc* basis by Council.
  - (c) These cases will have to comply with the above-mentioned application criteria as well as those listed in the Property Rates Policy before it will be considered by the Executive Mayor and Mayoral Committee of Council.
  - (d) Council may require a report from a welfare practitioner as part of the application criteria before considering the application and possible financial support.
  - (e) For the 2016/2017 financial year the total monthly income and corresponding financial support is determined as follows:-
    - (i) R 0 to R 3,750 per month - 100% of indigent support;

- (ii) R 3,751 to R 4,250 per month - 80% of indigent support;
  - (iii) R 4,251 to R 5,000 per month - 50% of indigent support; and
  - (iv) R 5,001 to R 5,750 per month - 20% of indigent support.
- (f) The Municipality retains the right to refuse the financial support if the details supplied in the application form were incomplete, incorrect or false.

**ANNEXURE "E"**

**DRAKENSTEIN MUNICIPALITY**  
**HOUSEHOLD INDIGENT SUPPORT SCHEME**

**VERIFICATION OF INFORMATION SUPPLIED: ACCOUNT NUMBER/S**

1. \_\_\_\_\_

2. \_\_\_\_\_

In terms of the Indigent Support Scheme, the applicant has agreed that municipal employees may conduct an on-site audit to verify the information supplied on the application form.

**SECTION A: PARTICULARS OF ACCOUNT HOLDER/S**

1. Surname: \_\_\_\_\_
2. First names: \_\_\_\_\_
3. Date of birth: \_\_\_\_\_
- 4- Residential Address: \_\_\_\_\_
5. Postal address: \_\_\_\_\_
6. ID number: \_\_\_\_\_
7. Telephone no. on site: \_\_\_\_\_
8. Person/s interviewed: \_\_\_\_\_
9. Number of people living  
on the property \_\_\_\_\_

**SECTION B: INCOME OF HOUSEHOLD**

I.D. Number	Initials and Surname	Gross Monthly Income	Source of Income	Employed Yes/No	Proof of Income
TOTAL					

## ANNEXURE "F"

## APPLICATION FOR MUNICIPAL SERVICES

TOWNSHIP: \_\_\_\_\_

STAND NO: \_\_\_\_\_

A. Please render / \*discontinue the following services on \_\_\_\_\_ (Date)  
(\_\_\_\_\_ working days' notice is required)

Deposit payable: R \_\_\_\_\_ Receipt no: \_\_\_\_\_ Date: \_\_\_\_\_

Existing account no: \_\_\_\_\_ New account no: \_\_\_\_\_

WATER PROVISION			SEWERAGE (TOILET)		ELECTRICITY		REFUSE
Communal Standpipe	Yard Tap	House Connection	Bucket	Water Connection	Prepaid	Credit meter	Removal

## TYPE OF SUPPLY:

Domestic		Commercial		Industrial		Educational		State		Agricultural	
State whether any type of business activities to be conducted from residential address (Mark with a cross (X))										YES	NO

At street address: \_\_\_\_\_

## TYPE OF BUILDING

House		Business		Flat		Complex		Sectional Title		Other	
-------	--	----------	--	------	--	---------	--	-----------------	--	-------	--

## B. PERSONAL INFORMATION OF APPLICANT/CUSTOMER

Trust/ Close Corporation/Company name: _____	
Trust/ Close Corporation/Company registration no.: <sup>1</sup> _____	
Surname: _____	ID Number: _____
First Names: _____	Pension Number : _____
Previous Address: _____	
Postal Address: _____	
Employer: _____	
Work Address: _____	
Employee Number: _____	
Postal Code: _____	Number of years at current site : _____
Tel. Work: _____	Tel. Home: _____
Occupation: _____	Cell No: _____

<sup>1</sup> No application form will be considered unless copies of the relevant registration forms are attached

Marital Status: _____	Bank Details: _____
Spouse Details: _____	Branch: _____

ID Number: _____	Account No: _____
Cell No.: _____	<b>Do you wish to make use of :</b>
Name of Employer: _____	Debit order: <input type="checkbox"/> YES <input type="checkbox"/> NO
Work Address: _____	Stop order: <input type="checkbox"/> YES <input type="checkbox"/> NO
Work Tel. No.: _____	Vehicle Registration No: _____
(In/out community of property/Marital Status Contract /Divorced)(Delete that is not appropriate)	
List of other accounts held : 1 _____	Account No.: _____
2 _____	Account No.: _____
3 _____	Account No.: _____
Previous municipal account _____ (Name of municipality)	Account No.: _____
Occupiers of stand other than family (rental, backyard lodgers, spaza shops, taxis, etc) : _____	
Number of people residing on property: <input type="text"/>	Over 18: <input type="text"/> Under 18: <input type="text"/>
Income of household if applying for indigent support (Include all sources of revenue of all the persons residing on the site): R _____ per month	
Method of account delivery: Fax <input type="checkbox"/>	Fax No: <input type="text"/> Post <input type="checkbox"/>
E-mail <input type="checkbox"/>	E-mail address: <input type="text"/>
Name and address of a family member and/or friend not residing at the same address: _____	
Tel. No.: _____	
If not the owner, to whom do you pay rent: _____	

**C. TO BE COMPLETED BY OWNER/AGENT/CARETAKER FOR LEASED PROPERTIES**

Surname: _____	First Names: _____
Home Address: _____	ID Number: _____
Name of Employer: _____	
Date: _____	Signature: _____

**D. DECLARATION BY APPLICANT**

1. I hereby declare that I/we agree to the conditions of supply of the mentioned services as laid down in the by-laws of the Municipality and other laws that are applicable.	
2. I/We hereby certify the information furnished to be correct.	
3. I/We hereby accept the street address/stand number specified above as my own domicilium citandi et executandi address where I will accept any notices to be served.	
4. I/We received a duplicate of this application form and am/are aware of the applicable further conditions of supply set out in the annexure at the back of this form.	

_____ <b>CUSTOMER/APPLICANT</b>	_____ <b>ON BEHALF OF MUNICIPALITY</b>
DATE: _____	DATE: _____





*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **TARIFF POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## TABLE OF CONTENTS

	PAGE
<b>PREAMBLE .....</b>	<b>3</b>
<b>1. DEFINITIONS .....</b>	<b>4</b>
<b>2. PURPOSE OF THE POLICY .....</b>	<b>6</b>
<b>3. TARIFF PRICIPLES .....</b>	<b>6</b>
<b>4. CATEGORIES OF CUSTOMERS .....</b>	<b>8</b>
<b>5. INVESTMENTS AND INCENTIVE POLICY .....</b>	<b>8</b>
<b>6. INDIGENT RELIEF .....</b>	<b>9</b>
<b>7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS .....</b>	<b>10</b>
<b>8. TARIFFS TYPES .....</b>	<b>14</b>
<b>9. CALCULATION OF TARIFFS FOR MAJOR SERVICES .....</b>	<b>15</b>
<b>10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES .....</b>	<b>23</b>
<b>11. IMPLEMENTING AND PHASING IN OF THE POLICY .....</b>	<b>23</b>
<b>12. PROCEDURES AND ACCOUNTABILITY.....</b>	<b>24</b>
<b>13. SHORT TITLE .....</b>	<b>24</b>

## PREAMBLE

**Whereas** section 74 of the Local Government: Municipal Systems Act, No 32 of 2000, requires a municipal council to adopt a tariff policy on the levying of fees for municipal services;

**And whereas** the tariff policy at least should include the principles contained in section 74(2) of the Act; thus giving effect to the By-Law required in terms of section 75 of the Act;

**And whereas** the tariff policy may differentiate between different categories of users, debtors, service providers, service standards and geographical areas as long as such differentiations do not amount up to unfair discrimination;

**Now therefore** the Municipal Council of Drakenstein Municipality adopts the following Tariff Policy:

## 1. DEFINITIONS

1.1 In this Tariff Policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:

1.1.1 **“Accounting Officer”** means the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, No 117 of 1998, and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act 2000, No 32 of 2000.

1.1.2 **“Basic municipal services”** means municipal services that are necessary to ensure an acceptable and reasonable quality of life and, if not provided, could endanger public health or safety of the environment. For Drakenstein Municipality this shall include *inter alia* electricity, water, refuse removal and sewerage services.

1.1.3 **“Break-even”** occurs when the revenue is equal to the total of the fixed and variable cost associated with the provision of the service.

1.1.4 **“Community services”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature.

1.1.5 **“Consumer, customer, owner, occupier, and account-holder”** in this policy refers to individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied. The levying of tariffs, fees, charges, etc. depends on statutory clauses, an approved tariff in terms of by-laws, contracts, agreements or tacit uses of services in certain circumstances. Such levies are payable on presentation of any invoice or monthly statement issued by the Chief Financial Officer. Payments are due by the date indicated for the transaction, in an

agreement / contract or on an invoice or monthly statement as the case may be.

- 1.1.6 **“Economic services”** are services that Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- 1.1.7 **“Executive manager”** means a person appointed by Council in terms of section 56(1)(a) of the Act as a manager directly accountable to the municipal manager.
- 1.1.8 **“Fixed costs”** are costs which do not vary with consumption or volume produced.
- 1.1.9 **“Resident”** means a person who ordinary resides in the jurisdictional area of Drakenstein Municipality.
- 1.1.10 **“The Act”** the Local Government: Municipal Systems Act, No 32 of 2000.
- 1.1.11 **“Total cost”** is the sum of all fixed and variable costs associated with a service.
- 1.1.12 **“Trading services”** are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.
- 1.1.13 **“Units consumed”** are the number of units consumed of a particular service.
- 1.1.14 **“Variable costs”** are costs that vary with consumption or volume produced.

## 1.2 About translation

In the event of any discrepancy between the Xhosa, Afrikaans or English versions of this policy, the English version will be regarded as the official version of the said policy.

## 2. **PURPOSE OF THIS POLICY**

2.1 Drakenstein Municipality wishes to achieve the following objectives by adopting this Tariff Policy:

- (a) To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, No 32 of 2000;
- (b) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act; and
- (c) To give guidance to the Executive Mayor and Mayoral Committee regarding tariff proposals that must be submitted to Council annually during the budget process.

## 3. **TARIFF PRINCIPLES**

3.1 Drakenstein Municipality wishes to record that the following tariff principles will apply:

- (a) All users of municipal services will be treated equitably;
- (b) The amount payable by consumers and / or owners will generally be in proportion to usage of the service;

- (c) Poor households must have access to basic services, however relief will be granted to poor households on a universal approach and not a targeted approach;
- (d) Free basic services will only be possible if National Government pay to the municipality an equitable share allocation which covers the full costs of the free basic services;
- (e) Tariffs must reflect the total cost of services;
- (f) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
  - (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made;
  - (ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services in order to subsidise rates and general services; and
  - (iii) By ensuring that service providers retain a fair rate of return on their investments;
- (g) Provision may be made in appropriate circumstances for surcharges on tariffs;
- (h) Efficient and effective use of resources may be encouraged by providing for penalties to prohibit or restrict exorbitant use;
- (i) The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the poor or incentives for local economic development;

- (j) Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
  - (k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable; and
  - (l) This policy shall be binding on all tariffs other than those governed by legislation, which supersedes the Local Government: Municipal Systems Act, No 32 of 2000.
- 3.2 Notwithstanding any of the above principles, indigent households identified as such would qualify for relief in terms of section 6 of this Policy.

## **4. CATEGORIES OF CUSTOMERS**

- 4.1 Council may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.
- 4.2 Where there are substantial differences between the infrastructures used to provide services to specific groups of users within a category and / or standard of services provided, the Council can, after considering a report by the Accounting Officer or the relevant executive manager of a Department determine differentiated tariffs for the different consumers within the specific category.

## **5. INVESTMENTS AND INCENTIVE POLICY**



- 5.1 Tariffs will not reflect incentives for investment or to promote economic development. Such incentives will be developed as a separate policy and be subject to the discretion of Council in order to enhance sustainability.
- 5.2 All such incentives will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.

## **6. INDIGENT RELIEF**

- 6.1 Tariffs will not reflect relief granted to poor households. Such incentives will be developed in separate policies (Customer Care, Credit Control, Debt Collection and Indigent Support Policy and Property Rates Policy) and be subject to the discretion of Council in order to enhance sustainability.
- 6.2 As such relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.
- 6.3 During implementation of these policies, cognisance will be taken of the fact that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments may be phased in over time.
- 6.4 Poor households are expected to manage their consumption beneath the levels of relief granted and are responsible for the payment of electricity and water consumption above the levels of relief granted.
- 6.5 Assistance and management of poor households is contained in the Customer Care, Credit Control, Debt Collection and Indigent Support Policy and Property Rates Policy with their applicable by-laws. The Municipality, however, retains the right to limit consumption through prepaid meters or restriction of services if the account of an assisted household falls into arrears.

## 7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS

### 7.1 Service Classification

7.1.1 To isolate the costs associated with a service, the Chief Financial Officer shall, subject to guidelines provided by National Treasury of the Department of Finance and / or the Municipal Council, make provision for *inter alia* the following classification of services:

**(a) Trading Services**

- (i) Water; and
- (ii) Electricity

**(b) Economic Services**

- (i) Refuse removal;
- (ii) Sanitation disposal;
- (iii) Fixed billboards and the display of advertisements in public places; and
- (iv) Holiday resorts

**(c) Community Services**

- (i) Air pollution;
- (ii) Administration and treasury services;

- (iii) Fire fighting services;
- (iv) Local tourism;
- (v) Town planning;
- (vi) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law;
- (vii) Storm water management system in built-up areas;
- (viii) Trading regulations;
- (ix) Cemeteries;
- (x) Control of public nuisances;
- (xi) Control of undertakings that sell liquor to the public;
- (xii) Crime prevention;
- (xiii) Facilities for accommodation, care and burial of animals;
- (xiv) Fencing and fences;
- (xv) Housing facilitation;
- (xvi) Licensing of dogs;
- (xvii) Licensing and control of undertakings that sell food to the public;

- (xviii) Local Economic development;
- (xix) Local amenities;
- (xx) Local sport facilities;
- (xxi) Marketing;
- (xxii) Municipal parks and recreation;
- (xxiii) Municipal roads;
- (xxiv) Noise pollution;
- (xxv) Pounds;
- (xxvi) Public places;
- (xxvii) Street trading / street lighting;
- (xxviii) Trading licenses;
- (xxix) Traffic and parking;
- (xxx) Building control;
- (xxxi) Licensing of motor vehicles and transport permits; and
- (xxxii) Nature reserves

**(d) Subsidised Services**

- (i) Health and ambulance

(ii) Libraries and museums

(iii) Proclaimed roads

## 7.2 Expenditure Classification

7.2.1 Expenditure categories will be classified in accordance with Generally Recognised Accounting Practice (GRAP).

## 7.3 Cost Elements

7.3.1 The following cost elements may be used to calculate the tariffs of the different services:

### **(a) Fixed Costs:**

Fixed costs consist of:

- (i) Employee related costs applicable to the service to ensure that the service can be rendered on an on-going basis at the desired service level;
- (ii) Capital costs (interest and depreciation) on external loans; depreciation on assets obtained through grants; as well as depreciation on assets obtained through own funds, whichever are applicable to the service; and
- (iii) Any other costs of a permanent nature as determined by the Council from time to time.

### **(b) Variable Cost:**

This includes all other variable costs that have reference to the service.

**(c) Total Cost:**

This is equal to the fixed cost plus variable cost.

## **8. TARIFF TYPES**

- 8.1 In determining the type of tariff applicable to the type of service, the municipality shall make use of any of the following six options or a combination thereof.

**(a) Single tariff:**

This tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer, the Council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.

**(b) Cost related two to four part tariff:**

This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs may be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and may be recovered by a fixed charge, independent of consumption for all classes of consumers; or the total costs may be recovered by a unit charge per unit consumed. Three and four part tariffs will be used to calculate

the tariff for electricity and to provide for maximum and notified demand (KVA charges) and usage (kWh charges) during peak, standard and off-peak (Time-of-use charges) periods.

**(c) Inclining block tariff:**

This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.

**(d) Declining block tariff:**

This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

**(e) Regulating tariff:**

This tariff is only of a regulatory nature and the Municipality may recover the full or a portion of the cost associated with rendering the service.

**(f) Cost plus mark-up tariff:**

This tariff is for other services rendered.

## **9. CALCULATION OF TARIFFS FOR MAJOR SERVICES**

- 9.1 In order to determine the tariffs which must be charged for the supply of the four major services (electricity, refuse removal, sanitation and water), the Municipality shall use service and expenditure classifications and cost elements contained in paragraph 7 above and identify all the costs associated with the service concerned, including specifically the following:

- (a) Cost of bulk purchases in the case of water and electricity;
- (b) Distribution costs, including distribution losses in the case of water and electricity;
- (c) Depreciation and finance charges;
- (d) Maintenance of infrastructure and other fixed assets;
- (e) Administration and service costs, including:
  - (i) Service charges levied by other support services such as finance, human resources, legal services, information technology services, etcetera;
  - (ii) Reasonable general overheads such as the costs associated with the office of the Accounting Officer and etcetera;
  - (iii) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock; and
  - (iv) All other ordinary operating expenses associated with the service concerned including in the case of the electricity service, the cost of providing street lighting in the municipal area;
- (f) The cost of the democratic process in the municipality – that is all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues and shall also be included into the costing of the major services of the municipality;



- (g) The intended surplus to be generated for the financial year, such surplus to be applied:
  - (i) As an appropriation to the capital replacement reserve; and / or
  - (ii) Generally in relief of rates and general services; and
- (h) The municipality shall provide the first 10 KI of water per month free of charge to all approved indigent households and may extend the provision of the first 10 KI of water per month free of charge to all other domestic consumers.

## 9.2 **Electricity**

- 9.2.1 The guidelines and policy issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- 9.2.2 To make electricity affordable to certain categories of consumers, cross subsidisation between and within categories of consumers, will be allowed based on the load factors of the categories and consumers within the category.
- 9.2.3 The fixed costs or portions thereof will be recovered through an energy or time-of-use charge.
- 9.2.4 To apply the abovementioned principles, the consumer types and cost allocations reflected in the following table will be used:

Categories of consumers	Fixed Charge Rand / Customer / Month	Active Energy Charge Cents / kWh	Seasonally Time-of-Use Energy Charge Peak / Standard / Off-Peak (kWh)	Capacity Charge Rand / KVA / Month
Domestic Pre-paid	X	X		X
Domestic	X	X		X
Business Pre-paid	X	X		X
Small business > 60A	X	X		X
Small business < 60A	X	X		X
Business = 400 V	X	X		X
Business = 11 kV	X		X	X
Business = 132 kV	X		X	X

- 9.2.5 Fixed charges and capacity charges may be combined to a single basic charge to be levied per month.
- 9.2.6 The basic charges for both conventional and pre-paid electricity shall be the same.
- 9.2.7 Where a property is not connected to the electricity reticulation system, but can reasonably be so connected, an availability tariff will be payable.

### 9.3 **Water**

- 9.3.1 The categories of water consumers as set out below, shall be charged at the applicable tariffs as approved by the council in each annual budget.

#### 9.3.2 Categories of consumption and charges

- (a) The first 10 (ten) KI of water consumption per month shall be supplied free of charge to all indigent household consumers and may be extended to all other domestic consumers.
- (b) Because water is a scarce national resource and this municipality is committed to the prudent conservation of such resources, the tariff

levied for domestic consumption of water shall escalate according to the volume of water consumed.

- (c) The tariffs for domestic consumption shall be based on the levels reflected in the following table:

Kilolitres per month			
Step 1	0	to	10
Step 2	11	to	30
Step 3	31	to	55
Step 4	56	to	80
Step 5	81	to	999
Step 6	1,000	and	above

- (d) The cost of water in the first two steps will be calculated at break even and will include any basic / availability charges.

- (e) The non-domestic consumers' tariff shall be based on the levels reflected in the following table:

Kilolitres per month			
Step 1	0	to	10
Step 2	11	to	30
Step 3	31	to	55
Step 4	56	to	80
Step 5	81	to	999
Step 6	1,000	and	above

- (f) A basic charge per water meter in the rural area as determined by the Council from time to time may be charged on all water consumers, except consumers using pre-paid meters.

- (g) Where consumers are not connected to the water services and these consumers can reasonable connect to the service within an approved township establishment, an availability tariff will be payable.

- (h) A water restriction tariff is approved by Council annually to be implemented during times of water restrictions forced onto us by our suppliers of water. This increased tariff will be applied to all the categories and their usage levels as illustrated in paragraph c and e above.

#### 9.4 **Refuse Removal**

- 9.4.1 A separate fixed monthly refuse removal charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary from once a week up to 7 times a week.

.

- 9.4.2 The fixed basic charge will be based on volume removed and the costs associated with its disposal.
- 9.4.3 A basic (availability) charge per month shall be charged for undeveloped erven.

#### 9.5 **Sewerage**

- 9.5.1 The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by Council in each annual budget.

##### 9.5.2 **Categories of usage and charges**

- (a) A basic (availability) charge per month shall be charged for undeveloped erven.
- (b) A separate fixed monthly sewerage charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary, e.g. night soil removal service, cesspool service, waterborne sewerage service, etcetera.

- (c) An additional monthly fee may be charged per toilet or any other type of measurement Council may determine from time to time.
- (d) An effluent fee shall further be payable by factories and other industrial users where the waste water emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the waste water concerned and the costs of the purification.

## 9.6 **Minor tariffs**

9.6.1 All minor tariffs shall be standardised within the municipal region.

9.6.2 All minor tariffs shall be approved by Council in each annual budget and shall, when deemed appropriate by Council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

9.6.3 Minor tariffs shall include but not limited to the following:

- (a) Cemetery fees;
- (b) Housing rentals;
- (c) Library fees (e.g. membership fees, fines, lost books, lost membership cards);
- (d) Rentals for the use of municipal premises;
- (e) Rentals for the use of municipal sports grounds;
- (f) Rentals for the lease of municipal property;

- (g) Building plan fees;
- (h) Advertising sign fees;
- (i) Plastic bag sales;
- (j) Refuse bin sales;
- (k) Cleaning of stands;
- (l) Sewerage connection fees;
- (m) Photostat copies and faxes;
- (n) Clearance certificates;
- (o) Pound fees;
- (p) Electricity: disconnection and reconnection fees;
- (q) Electricity: new connection fees;
- (r) Water: disconnection and reconnection fees;
- (s) Water: new connection fees;
- (t) Penalty and other charges in terms of the Customer Care, Credit Control, Debt Collection and Indigent Support Policy;
- (u) Supply of information;
- (v) Garden refuse removal;
- (w) License fees (drivers, learner license and road worthy);
- (x) Sale of livestock; and
- (y) Sale of miscellaneous items.

- 9.6.4 The Accounting Officer shall maintain a list of all minor services indicating their unit of service for the purpose of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees, charges and levies.

## **10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES**

- 10.1 After a draft budget as required by the Local Government: Municipal Finance Management Act (MFMA) has been tabled, the Accounting Officer must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 10.2 After approval of the annual budget in terms of section 24 of the MFMA, Council will give notice in terms of section 75A of the Act of all tariffs approved at the annual budget meeting and the Municipal Manager shall without delay conspicuously display a copy of the resolution for a period of at least 30 days at the main administrative office of the Municipality and at such other places within the Municipality to which the public has access as the Municipal Manager may determine.
- 10.3 A notice stating the purpose of the Council Resolution, date on which the new tariffs shall become operational and invitation for objections, will be advertised by the Municipality in terms of section 75A(3)(b) of the Act.
- 10.4 All tariffs approved must have been considered at the annual budget meeting.

## **11. IMPLEMENTING AND PHASING IN OF THE POLICY**

- 11.1 The principle contained in this policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in Section 75 of the Act.
- 11.2 Council may determine conditions applicable to a community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.
- 11.3 Jurisdiction and other differences in tariffs, if applicable, will be phased in over three financial years after the 2012/2013 financial year.

## **12. PROCEDURES AND ACCOUNTABILITY**

- 12.1 The Accounting Officer shall ensure that procedures to manage all aspects of this policy are prepared in the form of a manual, reviewed regularly and that these are formally adopted by him / her for implementation. These procedures will include aspects in this policy and subscribe to sound principles of internal control.
- 12.2 The executive manager of a Department shall ensure compliance with the procedures as approved from time to time by the Accounting Officer to give effect to the provisions of this policy.

## **13. SHORT TITLE**

- 13.1 This policy is the Tariff Policy of Drakenstein Municipality.





*“A place of excellence”*

# **DRAKENSTEIN MUNICIPALITY**

## **PROPERTY RATES POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

## TABLE OF CONTENTS

	PAGE
1. LEGISLATIVE CONTEXT .....	3
2. DEFINITIONS .....	4
3. OBJECTIVES OF THE POLICY .....	15
4. POLICY PRINCIPLES .....	17
5. CLASSIFICATION OF SERVICES.....	19
6. CATEGORIES OF PROPERTY.....	20
7. CATEGORIES OF OWNERS .....	24
8. MULTI PURPOSE USE OF PROPERTIES .....	25
9. DIFFERENTIAL RATING .....	25
10. EXEMPTIONS AND IMPERMISSIBLE RATES .....	26
11. REDUCTIONS .....	29
12. REBATES.....	30
13. PAYMENT OF RATES .....	42
14. ACCOUNTS TO BE FURNISHED.....	43
15. PHASING IN OF RATES.....	44
16. SPECIAL RATING AREAS .....	45
17. FREQUENCY OF VALUATION.....	47
18. COMMUNITY PARTICIPATION .....	47
19. REGISTER OF PROPERTIES.....	49
20. BY-LAWS TO GIVE EFFECT TO THE PROPERTY RATES POLICY .....	49
21. REGULAR REVIEW PROCESSES.....	50
22. SHORT TITLE .....	50

## **DRAKENSTEIN MUNICIPALITY**

### **PROPERTY RATES POLICY**

#### **1. LEGISLATIVE CONTEXT**

- 1.1 Section 229 of the Constitution of the Republic of South Africa, No 108 of 1996, determines that a municipality may impose rates on property subject to any regulated national legislation.
- 1.2 Section 2 of the Local Government: Municipal Property Rates Act, No 6 of 2004, determines that a municipality may levy a rate on property in its area subject to:
  - (a) Section 229 and any other applicable provisions of the Constitution;
  - (b) The provisions of the Municipal Property Rates Act (MPRA); and
  - (c) The rates policy it must adopt in terms of section 3.
- 1.3 Section 3 of the MPRA determines that the council of a municipality must adopt a policy consistent with the MPRA on the levying of rates on rateable property in the municipality.
- 1.4 Section 4(1)(c)(ii) of the Local Government: Municipal Systems Act, No 32 of 2000, determines that the council of a municipality has the right to finance the affairs of the municipality by imposing, *inter alia*, rates on property.
- 1.5 Section 62(1)(f)(ii) of the Local Government: Municipal Finance Management Act, No 56 of 2003, the Municipal Manager must ensure that the municipality has and implements a rates policy.
- 1.6 This policy must be read together with, and is subject to the stipulations of the MPRA and any regulations promulgated in terms thereof.

## 2. DEFINITIONS

- 2.1 **“Accommodation”** means accommodation in an accommodation establishment: a room, dwelling-house or second dwelling unit, self-catering room, self-catering apartment or free standing building let to transient guests;
- 2.2 **“Accommodation establishments”** means one or more of the following lettable types of accommodation:
- (a) **“Camping”** (informal temporary accommodation in a unique environment) is defined by a property used for erection of tents or other temporary structures for temporary accommodation for visitors or holiday-makers, which includes ablution, cooking and other facilities that are reasonably and ordinarily related to camping , for use of such visitors, and includes a caravan park, whether publicly or privately owned, but which excludes the alienation of land on the basis of time sharing, sectional title share blocks or individual subdivision; and excludes resort accommodation or mobile homes;
  - (b) **“Bed and breakfast”** (accommodation in a dwelling-house or second dwelling unit for transient guests) is defined by a dwelling-house or second dwelling in which the owner of the dwelling supplies lodging and meals for compensation to transient guests who have permanent residence elsewhere; provided that the primary use of the dwelling-house concerned shall remain for the living accommodation of a single family;
  - (c) **“Guest house”** (accommodation in a dwelling-house or second dwelling unit for transient guests) is defined by a dwelling-house or second dwelling which is used for the purpose of supplying lodging and meals to transient guests for compensation, in an establishment which exceeds the restrictions of a bed and breakfast establishment and may include business meetings or training sessions for resident guests;

- (d) **“Self-catering accommodation”** (accommodation for non-permanent residents and transient guests) is defined by a house, cottage, chalet, bungalow, flat, studio, apartment, villa, or similar accommodation where facilities and equipment are provided for guests to cater for themselves. The facilities should be adequate to cater for the maximum advertised number of residents the facility can accommodate;
- (e) **“Self-catering apartments”** (accommodation for non-permanent residents and transient guests) is defined by a building or group of buildings consisting of separate accommodation units, each incorporating a kitchen facility (fully or partially), and which may include other communal facilities for the use of transient guests, together with outbuildings as are normally used therewith; which are rented for residential purposes and may include holiday flats; but does not include a hotel, dwelling-house, second dwelling or group house;
- (f) **“Backpackers accommodation”** (accommodation and communal facilities in a building or free standing buildings for transient guests) is defined by a building where lodging is provided, and may incorporate cooking dining and communal facilities for the use of lodgers, together with such outbuildings as are normally used therewith and includes a building in which dormitories / rooms / beds are rented for residential purposes, youth hostel, and backpackers’ lodge; but does not include a hotel, dwelling house, second dwelling or group house; or
- (g) **“Boarding house”** a dwelling-house or second dwelling which is used for the purpose of supplying lodging with or without meals or self-catering to non-permanent / permanent residents for compensation; provided that the primary use of the dwelling-house shall remain for the living accommodation of a single family.

2.3 **“Act”** means the Local Government: Municipal Property Rates Act, No 6 of 2004.

- 2.4 **“Agent”**, in relation to the owner of a property, means a person appointed by the owner of the property:
- (a) To receive rental or other payments in respect of the property on behalf of the owner; or
  - (b) To make payments in respect of the property on behalf of the owner.
- 2.5 **“Agricultural purpose”** means a farm or small holding property that is used for the cultivation of soils for purposes of planting and gathering crops; forestry in the context of the planting, growing and sawing-off of trees in a managed and structured fashion; the rearing of livestock and game or the propagation and harvesting of fish; and:
- (a) In relation to the use of property, excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game;
  - (b) In relation to an agricultural unit used for irrigation purposes, includes all irrigation stands being operated by the same farmer as a single agricultural unit in the sole discretion of the Municipality; and
  - (c) In relation to an agricultural unit used for stock-farming purposes, includes all stock-farms being operated by a farmer as a single agricultural unit in the sole discretion of the Municipality.
- 2.6 **“Agricultural property”** means property that is used primarily for agricultural purposes but, without derogating from section 9, excludes any portion thereof that is used commercially for hospitality of guests, and excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game;
- 2.7 **“Annually”** means once every financial year.
- 2.8 **“Business and commercial property”** means:

- (a) Property used for the activity of buying, selling or trading in commodities or services and includes any office or other accommodation on the same property, the use of which is incidental to such activity; or
- (b) Property on which the administration of the business of private or public entities take place.

## 2.9 ***“Category”***

- (a) In relation to property, means a category of properties determined in terms of paragraph 6 of this policy; and
- (b) In relation to owners of properties, means a category of owners determined in terms of paragraph 7 of this policy.

2.10 ***“Child-headed household”*** means a household where the main caregiver of the said household is younger than 18 years of age. Child-headed household means a household headed by a child as defined in terms of section 28(3) of the Constitution.

2.11 ***“Definitions, words and expressions”*** as used in the Act are applicable to this policy document wherever it is used.

2.12 ***“Industrial property”*** means property used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, and includes any office or other accommodation on the same property, the use of which is incidental to such activity.

2.13 ***“Land reform beneficiary”***, in relation to a property, means a person who -

- (a) Acquired the property through -

- (i) The Provision of Land and Assistance Act, No 126 of 1993; or
  - (ii) The Restitution of Land Rights Act, Act No 22 of 1994;
- (b) Holds the property subject to the Communal Property Associations Act, No 28 of 1996; and
  - (c) Holds or acquires the property in terms of such other land tenure reform legislation as may pursuant to section 25(6) and (7) of the Constitution be enacted after this Act has taken effect.
- 2.14 ***“Land tenure right”*** means a land tenure right as defined in section 1 of the Upgrading of Land Tenure Rights Act, 1991 (Act No 112 of 1991).
- 2.15 ***“Mining property”***, means a property used for mining operations as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002).
- 2.16 ***“Multiple purposes”*** in relation to a property means the use of a property for more than one purpose, subject to section 9.
- 2.17 ***“Municipality”*** means the Local Municipality of Drakenstein.
- 2.18 ***“Newly rateable property”*** means any rateable property on which property rates were not levied before the end of the financial year preceding the date on which this Act took effect, excluding:
- (a) A property which was incorrectly omitted from a valuation roll and for that reason was not rated before that date; and
  - (b) A property identified by the Minister by notice in the Gazette where the phasing-in of a rate is not justified.



2.19 **“Officer bearer”** in relation to places of public worship, means the primary person who officiates at the services at that place of worship.

2.20 **“Official residence”** in relation to places of public worship, means –

- (a) A portion of the property used for residential purposes; or
- (b) one residential property, if the residential property is not located on the same property as the place of public worship,

registered in the name of the religious community or registered in the name of a trust established for the sole benefit of a religious community and used as a place of residence for the office bearer.

2.21 **“Owner”**:

- (a) In relation to a property referred to in paragraph (a) of the definition of *“property”*, means a person/s in whose name ownership of the property is registered;
- (b) In relation to a right referred to in paragraph (b) of the definition of *“property”*, means a person/s in whose name the right is registered;
- (bA) In relation to a time sharing interest contemplated in the Property Time-Sharing Control Act, 1983 (Act No.75 of 1983), means the management association contemplated in the regulations made in terms of section 12 of the Property Time-Sharing Control Act, 1983, and published in Government Notice R327 of 24 February 1984;
- (bB) In relation to a share in a share block company, the share block company as defined in the Share Block Control Act, 1980 (Act No. 59 of 1980);

- (bC) In relation to buildings, other immovable structures and infrastructure referred to in section 17(1)(f), means the holder of the mining right or the mining permit;
- (c) In relation to a land tenure right referred to in paragraph (c) of the definition of “*property*”, means a person/s in whose name the right is registered or to whom it was granted in terms of legislation; or
- (d) In relation to public service infrastructure referred to in paragraph (d) of the definition of “*property*”, means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”:

Provided that a person mentioned below may for the purposes of this Act be regarded by the Municipality as the owner of a property in the following cases:

- (i) A trustee, in the case of a property in a trust excluding state trust land;
- (ii) An executor or administrator, in the case of a property in a deceased estate;
- (iii) A trustee or liquidator, in the case of a property in an insolvent estate;
- (iv) A judicial manager, in the case of a property in the estate of a person under curatorship;
- (v) A person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
- (vi) A lessee, in the case of a property that is registered in the name of a municipality and is leased by it;

(vii) A buyer, in the case of a property that was sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer; or

(viiA) A lessee, in the case of property to which a land tenure right applies and which is leased by the holder of such right.

2.22 **“Place of public worship”** means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in which secular or religious education is the primary instructive medium: Provided that the property is –

- (a) Registered in the name of the religious community;
- (b) Registered in the name of a trust established for the sole benefit of a religious community or:
- (c) Subject to a land tenure right.

2.23 **“Privately owned towns serviced by the owner”** means single properties, situated in an area not ordinarily being serviced by the Municipality, divided through sub-division or township establishment into (ten or more) full title stands and / or sectional units and where all rates-related services inclusive of installation and maintenance of streets, roads, sidewalks, lighting, storm water drainage facilities, parks and recreational facilities are installed at the full cost of the developer and maintained and rendered by the residents, home owners association or management companies / bodies of such estate.

2.24 **“Property”** means:

- (a) Immovable property registered in the name of a person/s, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person/s;

- (b) A right registered against immovable property in the name of a person/s, excluding a mortgage bond registered against the property;
- (c) A land tenure right registered in the name of a person/s or granted to a person/s in terms of legislation; or
- (d) Public service infrastructure.

2.25 ***“Public service infrastructure”*** means publicly controlled infrastructure of the following kinds:

- (a) National, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) Water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;
- (c) Power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) Gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) Railway lines forming part of a national railway system;
- (f) Communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) Runways, aprons and the air traffic control unit at national or provincial airports, including the vacant land known as the obstacle free zone surrounding these, which must be vacant for air navigation purposes;

- (h) Breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) Any other publicly controlled infrastructure as may be prescribed; or
- (j) Rights of way, easements or servitudes in connection with infrastructure mentioned in sub-paragraphs (a) to (i) above.

2.26 **“Public service purposes”** in relation to the use of a property, means property owned and used by the state as -

- (a) Hospitals or clinics;
- (b) Schools, pre-schools, early childhood development centres or further education and training colleges;
- (c) National and provincial libraries and archives;
- (d) Police stations;
- (e) Correctional facilities; or
- (f) Courts of law,

but excludes property contemplated in the definition of “public service infrastructure”.

2.27 **“Ratio”** in relation to section 19, means the relationship between the cent amount in the Rand applicable to residential properties and different categories of non-residential properties: Provided that the two relevant cent

amounts in the Rand are inclusive of any relief measures that amount to rebates of a general application to all properties within a property category.

2.28 ***“Residential property”*** means a property included in a valuation roll in terms of section 48(2)(b) in respect of which the primary use or permitted use is for residential purposes without derogating from section 9. For more clarity residential property in this policy will refer to improved property (structural improvements) that:

- (a) Is used predominantly for residential purposes including any adjoining property registered in the name of the same owner and used together with such residential property as if it were one property. Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes;
- (b) Is a unit registered in terms of the Sectional Title Act and used predominantly for residential purposes;
- (c) Is owned by a share-block company and used solely for residential purposes;
- (d) Is a residence used for residential purposes situated on property used for or that is related to educational purposes;
- (e) Is property which is included as residential in a valuation roll in terms of section 48(2)(b) of the Act;
- (e) Is retirement schemes and life right schemes used predominantly (60% or more) for residential purposes;
- (f) Is property that specifically exclude hostels, flats, old age homes, accommodation establishments and vacant land irrespective of its zoning or intended use; and

- (g) All residential properties with more than one use, irrespective of its zoning, will be multi purposed by the valuer to enable Council to levy the correct property rates levy on the intended use.

2.29 **“Rural communal settlements”** means the residual portion of rural communal land excluding identifiable and rateable entities within the property and excluding State Trust Land and land reform beneficiaries as defined in the Act.

2.30 **“Sport property”** means property (grass or other surfaces sport fields as well as clubhouses) predominantly used for amateur sporting activities.

2.31 **“State trust land”** means land owned by the state:

- (a) In trust for persons communally inhabiting the land in terms of a traditional system of land tenure;
- (b) Over which land tenure rights were registered or granted; or
- (c) Which is earmarked for disposal in terms of the Restitution of Land Rights Act, No 22 of 1994.

2.32 **“Wind Farms”** means an area of land with a group of energy-producing windmills or wind turbines.

### 3. OBJECTIVES OF THE POLICY

3.1 The objectives of this policy are: –

- (a) To comply with the provisions of section 3 of the Act;
- (b) To determine criteria to be applied for:

- (i) Levying different property rates for different property or categories or sub-categories as determined in terms of section 8 of the Act;
  - (ii) Exemptions;
  - (iii) Reductions;
  - (iv) Rebates; and
  - (v) Rate increases or decreases;
- (c) To determine or provide criteria for the determination of:
- (i) Categories of properties or sub-categories for the purpose of levying different property rates; and
  - (ii) Categories of owners of properties or categories of properties or sub-categories for the purpose of granting exemptions, rebates and reductions;
- (d) To determine how the Municipality's powers should be exercised in terms of multiple-used properties;
- (e) To identify and quantify the following for the Municipality in terms of cost and the benefit to the community:
- (i) Exemptions, rebates and reductions;
  - (ii) Exclusions; and
  - (iii) Rates on properties that must be phased in;
- (f) To take into account the effect of property rates on the poor;



- (g) To take into account the effect of property rates on organisations that perform activities for public benefit activities;
- (h) To take into account the effect of property rates on public services infrastructure;
- (i) To determine measures to promote local economic and social development;
- (j) To identify all rateable revenue not being rated; and
- (k) In respect of agricultural property, give effect to the regulations promulgated in terms of section 19(1)(b) of the Act.

3.2 It needs to be noted that Council do have seven years to fully comply with the implementation of section 8 of the Act. Section 8 deals with the application of differential rates on different categories or sub-categories of properties.

## **4. POLICY PRINCIPLES**

- 4.1 Property rates are levied in accordance with the Act as an amount in the rand based on the market value of all rateable property contained in the Municipality's valuation roll and supplementary valuation roll.
- 4.2 As allowed for in the Act, the municipality has chosen to differentiate between various categories of property and categories of owners of property as contemplated in paragraph 6 and 7 of this policy. Some categories of property and categories of owners are granted relief from rates. The Municipality however does not grant relief in respect of payments of property rates to any category of owners or properties, or to owners of properties on an individual basis.

4.3 There would be no phasing in of property rates based on the new valuation roll, except as prescribed by legislation and in accordance with paragraph 15 of this policy.

4.4 In accordance with section 3(3) of the Act, the property rates policy for the Municipality is based on the following principles:

(a) Equity

The Municipality will treat all ratepayers with similar properties the same.

(b) Affordability

The ability of a person to pay rates will be taken into account by the Municipality. In dealing with the poor / indigent ratepayers the Municipality will provide relief measures through exemptions, reductions, rebates and cross subsidy from the equitable share allocation.

(c) Sustainability

Rating of property will be implemented in a way that:

- (i) It supports sustainable local government by providing a stable and buoyant revenue source within the discretionary control of the Municipality;
- (ii) Supports local, social and economic development; and
- (iii) Secures the economic sustainability of every category of ratepayer.

(d) Cost efficiency

Property rates will be based on the value of all rateable property and will be used to fund community and subsidised services after taking into

account any profits generated on trading services (water and electricity) as well as economic services (refuse removal and sanitation) and the amounts required to finance exemptions, rebates, reductions and phasing-in of rates as approved by the Municipality from time to time.

## **5. CLASSIFICATION OF SERVICES**

5.1 The Municipal Manager or his / her nominee must, subject to the guidelines provided by National Treasury and the Municipal Council of the Municipality, through the Municipality's Tariff Policy make provision for the following classification of services:

(a) Trading services

(i) Water.

(ii) Electricity.

(b) Economic services

(i) Refuse removal.

(ii) Sanitation.

(c) Community and subsidised services

These include all those services ordinarily being rendered by the Municipality excluding those mentioned in subparagraph 5.1(a) and (b) above.

5.2 Trading and economic services as referred to in paragraph 5.1(a) and (b) must be ring fenced and financed from service charges while community and subsidised services referred to in paragraph 5.1(c) will be financed from

surpluses on trading and economic services, regulatory fees, rates and rates related income.

## **6. CATEGORIES OF PROPERTY**

6.1 Subject to section 19 of the Act, Drakenstein Municipality may, in terms of the criteria set out in its property rates policy, levy different property rates for different categories of rateable properties, which may include categories determined according to:

- (a) The use of the property;
- (b) The permitted use of the property;
- (c) The geographical area in which the property is situated; or
- (d) A combination of (a) and (b) that will have to be phased in over the next seven years.

6.2 Categories of rateable property that may be determined in terms of paragraph 6.1 above include the following:

- (a) Residential improved property;
- (b) Property that is vacant (empty stands) with zoning or proposed use earmarked for residential property;
- (c) Property that is vacant (empty stands) with zoning or proposed use earmarked for industrial, business or commercial;
- (d) Industrial property;
- (e) Business and commercial property;

- (f) Farm property used for:
  - (i) Agricultural purposes;
  - (ii) Industrial purposes;
  - (iii) Commercial or business purposes;
  - (iv) Residential purposes; or
  - (v) Purposes other than those specified in subparagraphs (i) to (iv);
- (g) Agricultural properties;
- (h) Mining properties;
- (i) Farm property not used for any purpose;
- (j) Small holdings used for:
  - (i) Agricultural purposes;
  - (ii) Industrial purposes;
  - (iii) Commercial or business purposes;
  - (iv) Residential purposes; or
  - (v) Purposes other than those specified in subparagraphs (i) to (iv);
- (k) Properties owned by an organ of state and used for public service purposes;

- (l) State owned property;
- (m) Municipal property;
- (n) Public service infrastructure as referred to in the Act;
- (o) Properties owned by public benefit organisations and used for specified public benefit activities;
- (p) Property:
  - (i) Acquired through the Provision of Land and Assistance Act, No 126 of 1993, or the Restitution of Land Rights Act, No 22 of 1994; or
  - (ii) Which is subject to the Communal Property Associations Act, No 28 of 1996;
- (q) Protected areas;
- (r) Property owned by the following public benefit organisations used for the corresponding public benefit activities listed in Part 1 of the Ninth Schedule to the Income Tax Act, No 58 of 1962 (also refer to paragraph 10.4 of this policy):
  - (i) Welfare and humanitarian organisations;
  - (ii) Cultural organisations;
  - (iii) Sporting organisations;
  - (iv) Conservation, environmental and animal welfare organisations;
  - (v) Health care organisations; and

- (vi) Education and development;
- (s) Amateur sport property not listed in subparagraph (r)(iii) above;
- (t) Professional sport property;
- (u) Property used for multiple purpose, subject to section 9 of the Act;
- (v) Accommodation establishments:
  - (i) In urban areas; and
  - (ii) In rural (farm and small holding) areas;
- (w) Private open space;
- (x) Conservation areas;
- (y) Property on which national monuments are proclaimed;
- (z) Privately owned towns; and
- (aa) Any other category of property as may be determined by the Minister, with the concurrence of the Minister of Finance, by notice in the Gazette.

6.3 In addition to the above categories of rateable property determines in terms of section 8(2) of the Act, a municipality may determine additional categories of rateable property, including vacant land: Provided that, with the exception of vacant land, the determination of such property categories does not circumvent the categories of rateable property that must be determined in terms of section 8(2) of the Act.

6.4 Where a municipality can, on good cause, show that there is a need to sub-categorise the property categories listed in section 8(2) of the Act, a

municipality may apply to the Minister in writing for authorisation to create one or more of such sub categories.

- 6.5 The above provisions must be applied within seven years from 1 July 2015 in terms of section 93B of the Act.
- 6.6 In determining the category or sub-category of a property referred to in paragraph 6.2 above the Municipality shall take into consideration the dominant use of the property, regardless the formal zoning of the property.
- 6.7 Properties used for multiple purposes shall be categorised and rated as provided for in section 9 of the Act and as more fully described in paragraph 8 of this policy.

## **7. CATEGORIES OF OWNERS**

- 7.1 For the purpose of granting exemptions, reductions and rebates in terms of paragraph 10, 11 and 12 of this policy the following categories of owners of properties are determined:-
- (a) Those owners who qualify and who are registered as indigents in terms of the adopted indigent policy of the Municipality;
  - (b) Those owners who do not qualify as indigents in terms of the adopted indigent policy of the Municipality but whose total monthly income is less than an amount annually determined by the Municipality in its budget;
  - (c) Owners of property situated within an area affected by:
    - (i) A disaster within the meaning of the Disaster Management Act, No 57 of 2002; or
    - (ii) Serious adverse social or economic conditions;



- (d) Owners of residential properties with a market value below the amount as determined annually by the Municipality in its budget;
- (e) Owners of properties situated in “privately owned towns” as referred to in paragraph 12.1.2 of this policy;
- (f) Owners of agricultural properties as referred to in paragraph 12.1.3; and
- (g) Child headed families where any child of the owner or child who is a blood relative of the owner of the property, is responsible for the care of siblings or parents of the household.

## **8. MULTI PURPOSE USE OF PROPERTIES**

- 8.1 Properties used for multiple purposes which for example do not fall within the definition of residential properties and, accordingly, do not qualify for the residential rate, may be included into the category of multiple-use properties, as per section 9(1)(c) of the Act, for which an apportionment of value for each distinct use of the property, irrespective of its zoning rights, will be calculated by the municipal valuer and used for billing at the appropriate and applicable rate.
- 8.2 All properties in Drakenstein Municipality with more than one use, irrespective of its zoning rights, will be multiple purposed by the municipal valuer.

## **9. DIFFERENTIAL RATING**

- 9.1 Criteria for differential rating on different categories of properties in terms of section 8(1) of the Act will be according to:

- (a) The nature of the property including its sensitivity to rating e.g. agricultural properties used for agricultural purposes; and
- (b) The promotion of local, social and economic development within the Municipality.

9.2 Differential rating among the various property categories will be done by way of:

- (a) Setting a different cent amount in the rand for each property category or sub-category; and
- (b) By way of reductions and rebates as provided for in this policy document.

## **10. EXEMPTIONS AND IMPERMISSIBLE RATES**

10.1 The following categories of property are exempted from rates:-

- (a) Municipal properties

Municipal properties are exempted from paying property rates as it will increase the rates burden or service charges to property owners or consumers. However, where municipal properties are leased, the lessee will be responsible for the payment of the determined property rates in accordance with the lease agreement.

- (b) Residential properties

All residential properties with a market value of less than the amount as annually determined by the municipality are exempted from paying property rates. For the 2013/2014 financial year (implementation date of 1 July 2013 for the new general valuation roll) the maximum reduction is determined as

R 160,000. The impermissible rates of R 15,000 contemplated in terms of section 17(1)(h) of the Act is included in the amount referred to above as annually determined by the municipality. The remaining R 145,000 is an important part of the council's indigent policy and is aimed primarily at alleviating poverty.

(c) Public service infrastructure

Public service infrastructure is exempted from paying property rates as allowed for in the Act as they provide essential services to the community.

(d) Right registered against a property

Any right registered against a property as defined in paragraph 2.18(b) of this policy is exempted from paying rates.

10.2 Exemptions in paragraph 10.1 will automatically apply and no application is thus required.

10.3 Impermissible Rates:

In terms of section 17(1) of the Act the Municipality may, *inter alia*, not levy a rate:

- (a) On those parts of a special nature reserve, national park or nature reserve within the meaning of the National Environmental Management: Protected Areas Act, No 57 of 2003, or of a national botanical garden within the meaning of the National Environmental Management: Biodiversity Act, 2004, which are not developed or used for commercial, business, or residential agricultural purposes;
- (b) On mining rights or a mining permit within the meaning of the Mineral and Petroleum Resource Development Act, 2002 (Act No. 28 of 2002), excluding any building, other immovable structures and infrastructure

above the surface of the mining property required for the purposes of mining;

- (c) On a property belonging to a land reform beneficiary or his or her heirs, dependants or spouse provided that this exclusion lapses ten years from the date on which such beneficiary's title was registered in the office of the Registrar of Deeds or upon alienation of the property by the land reform beneficiary or his or heirs, dependants or spouse; and
- (d) On a property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community which is occupied by the office-bearer of that community who officiates at services at that place of worship.

#### 10.4 Public benefit organisations (PBO's)

Taking into account the effects of property rates on PBO's performing a specific public benefit activity and if registered in terms of Part 1 of the Ninth Schedule to the Income Tax Act, No 58 of 1962, for tax reduction because of those activities, PBO's may apply for the exemption of paying property rates. PBO's may include, *inter alia*:-

- (a) Welfare and humanitarian (charitable) organisations;
- (b) Cultural organisations (museums, libraries, art galleries and botanical gardens);
- (c) Sporting organisations (non-professional);
- (d) Conservation, environmental and animal welfare organisations;
- (e) Health care organisations; and

(f) Education and development.

- 10.5 All possible benefiting organisations in paragraph 10.4 must apply annually for exemptions. All applications must be addressed in writing to the Municipality by 31 August for the financial year in respect of which the rate is levied. If the exemption applied for is granted the exemption will apply for the full financial year.
- 10.6 Public benefit organisations must attach a SARS tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (No 58 of 1962) to all applications.
- 10.7 The Municipality retains the right to refuse the exemption if the details supplied in the application form were incomplete, incorrect or false.
- 10.8 The extent of the exemptions implemented in terms of paragraph 10.1 to 10.4 must annually be determined by the municipality and included in the annual budget.

## **11. REDUCTIONS**

- 11.1 Reductions as contemplated in section 15 of the Act will be considered on an *ad hoc* basis in the event of the following:
- (a) Partial or total destruction of a property; and
  - (b) Disasters as defined in the Disaster Management Act, No 57 of 2002.
- 11.2 The following conditions shall be applicable in respect of paragraph 11.1:
- (a) The owner referred to in clause 11.1(a) shall apply in writing for a reduction and the onus will rest on such applicant to prove to the

satisfaction of the Municipality that the property has been totally or partially destroyed. He / she will also have to indicate to what extent the property can still be used and the impact on the value of the property.

- (b) Property owners will only qualify for a reduction if affected by a disaster as referred to in the Disaster Management Act, No 57 of 2002.
- (c) A maximum reduction that may be determined on an annual basis shall be allowed in respect of both clauses 11.1(a) and 11.1(b). For the 2013/2014 financial year the maximum reduction is determined as 80% and remains the same until re-determined by Council.
- (d) An *ad-hoc* reduction will not be given for a period in excess of 6 months, unless the Municipality gives further extension on application.
- (e) If property rates were paid in advance prior to granting of a reduction the Municipality will give credit to such an owner as from the date of reduction until the date of lapse of the reduction or the end of the period for which payment was made whichever occurs first.

## **12. REBATES**

### **12.1. Categories of property**

#### **12.1.1 Business, commercial and industrial properties**

- (a) The municipality may grant rebates to rateable enterprises that promote local, social and economic development in its area of jurisdiction. The following criteria will apply:
  - (i) Job creation in the municipal area;

- (ii) Social upliftment of the local community; and
  - (iii) Creation of infrastructure for the benefit of the community;
- (b) A maximum rebate as annually determined by the Municipality will be granted on approval, subject to:
- (i) A business plan issued by the directors of the company indicating how the local, social and economic development objectives of the municipality are going to be met;
  - (ii) A continuation plan issued by the directors and certified by auditors of the company stating that the objectives have been met in the first year after establishment and how the company plan to continue to meet the objectives; and
  - (iii) An assessment by the Municipal Manager or his / her nominee indicating that the company qualifies; and
- (c) All applications must be addressed in writing to the municipality by 31 August for the financial year in respect of which the property rates is levied. If the rebate applied for is granted the rebate will apply for the full financial year.
- (d) No maximum rebate has been determined by the Municipality for the 2016/2017 financial year and will be determined on an *ad hoc* basis as per 0application received until a specific incentive policy has been developed and accepted by Council.

#### 12.1.2 Privately owned towns serviced by the owner

- (a) The Municipality grants an additional rebate, to be determined on an annual basis, which applies to privately owned towns serviced by the owner qualifying as defined in paragraph 2.17 of this policy.

- (b) An additional rebate (based on the total property value) of a maximum of 22.5% will be granted by the municipality in respect of the following:
  - (i) 7.5% if the owner maintains all rates-related services as defined in paragraph 2.17 of this policy;
  - (ii) 7.5% if the owner renders a full refuse removal service; and
  - (iii) 7.5% if the owner renders a full sanitation service.
- (c) The granting of additional rebates is subject to the following:
  - (i) All applications must be addressed in writing to the Municipality by 31 August 2014 indicating how service delivery and development obligations of the Municipality were met. This application will be required as a once off requirement. Any new applications for the 2015/2016 financial year and onwards must be addressed in writing to the municipality by 31 August for the financial year in respect of which the rate is levied. If the rebate applied for is granted the rebate will apply for the full financial year and such application again regarded as a once off requirement. Home owners associations or management companies / bodies of “privately owned towns” may apply as a collective for the additional rebates. These rebates are over and above the R 160,000 exemption on residential properties referred to in paragraph 10.1(b) of this policy.
  - (ii) Council reserves the right to send officials or its agents to premises / households receiving relief on annual basis for the purpose of conducting an on-site audit of the details supplied. The onus also rests on recipients to immediately notify Council of any changes in their original application.
  - (iii) The Municipality retains the right to refuse the exemption if the



details supplied in the application form were incomplete, incorrect or false.

- (d) The rebate of 22.5% will not be applicable on any sport property within privately owned towns. Sport property used for amateur or professional purposes will be dealt with as per paragraph 12.2.5 and 12.2.6 below.

#### 12.1.3 Agricultural property rebate

- (a) When considering the criteria to be applied in respect of any exemptions, rebates and reductions on any properties used for agricultural purposes the Municipality must take into account:
  - (i) The extent of rates related services rendered by the Municipality in respect of such properties;
  - (ii) The contribution of agriculture to the local economy;
  - (iii) The extent to which agriculture assists in meeting the service delivery and developmental objectives of the Municipality; and
  - (iv) The contribution of agriculture to the social and economic welfare of farm workers.
- (b) In terms of section 84 of the Act the Minister for Provincial and Local Government, and in concurrence with the Minister of Finance as required through section 19 of the Act, may determine that a rate levied by the Council on a category of non-residential property may not exceed the ratio to the rate on residential property. In the absence of any such promulgation the municipality will apply the standard ratio for agricultural properties as 1:0.25 (75% “rebate” on the tariff for residential properties). Since the 2009/2010 financial year the minister has promulgated a ratio of 1:0.25.

- (c) An additional rebate (based on the total property value) of a maximum of 10% will be granted by the municipality in respect of the following:
  - (i) 2.5% for the provision of accommodation in a permanent structure to farm workers and their dependents or families;
  - (ii) 2.5% if these residential properties are provided with potable water;
  - (iii) 2.5% if the residential properties of the farm workers are electrified; and
  - (iv) 2.5% for the provision of land for burial of own farm workers or for educational and / or recreational purposes to own farm workers as well as for workers from surrounding farms.
  
- (e) The granting of additional rebates is subject to the following:
  - (i) All applications must be addressed in writing to the Municipality by 31 August each year indicating how service delivery and development obligations of the Municipality and contribution to the social and economic welfare of farm workers were met. If the rebate applied for is granted the rebate will apply for the full financial year and such application again regarded as a once off requirement.
  - (ii) Council reserves the right to send officials or its agents to premises / households receiving relief on annual basis for the purpose of conducting an on-site audit of the details supplied. The onus also rests on recipients to immediately notify Council of any changes in their original application.
  - (iii) The Municipality retains the right to refuse the exemption if the

details supplied in the application form were incomplete, incorrect or false.

- (e) No other rebates will be granted to properties that qualify for the agricultural rebate. For the avoidance of doubt, properties that qualify for the agricultural rebate will not be entitled to the residential rate exemption as set out in paragraph 10.1(b) of this policy.

#### 12.1.4 Residential properties on farms, small holdings and in rural areas

- (a) The Municipality grants an additional rebate, to be determined on an annual basis, which applies to residential properties on farms, small holdings and in rural areas serviced by the owner.
- (b) An additional rebate (based on the total property value) of a maximum of 22.5% will be granted by the municipality in respect of the following:
  - (i) 7.5% if the owner renders a full water service;
  - (ii) 7.5% if the owner renders a full refuse removal service; and
  - (iii) 7.5% if the owner renders a full sanitation service.
- (c) An additional rebate for disabled persons (based on the total property value) of a maximum of 30% will be granted by the municipality in respect of the following:
  - (i) 10 % if the owner renders a full water service;
  - (ii) 10% if the owner renders a full refuse removal service: and
  - (iii) 10 % if the owner renders a full sanitation service.

- (d) The granting of additional rebates is subject to the following:
- (i) All applications must be addressed in writing to the Municipality by 31 August 2014 indicating how service delivery and development obligations of the Municipality were met. This application will be required as a once off requirement. Any new applications for the 2015/2016 financial year and onwards must be addressed in writing to the municipality by 31 August for the financial year in respect of which the rate is levied. If the rebate applied for is granted the rebate will apply for the full financial year and such application again regarded as a once off requirement. These rebates are over and above the R 160,000 exemption on residential properties referred to in paragraph 10.1(b) of this policy.
  - (ii) Council reserves the right to send officials or its agents to premises / households receiving relief on annual basis for the purpose of conducting an on-site audit of the details supplied. The onus also rests on recipients to immediately notify Council of any changes in their original application.
  - (iii) The Municipality retains the right to refuse the exemption if the details supplied in the application form were incomplete, incorrect or false.

## **12.2 Categories of owners**

### **12.2.1 Indigent owners**

- (a) Owners who qualify and who are registered as indigents in terms of the adopted indigent policy of the Municipality, regardless of the value of the property, may receive a 100% rebate from payment of property rates. Such cases whose value of their property exceeds R 160,000 will be submitted to Council for consideration.

- (b) An indigent household who stays on a property of a deceased owner / relative can apply for such rebate from payment of property rates while the process of transferring of ownership takes place. Such an application will be submitted to Council for consideration.

#### 12.2.2 Child headed families

- (a) Families headed by children shall receive a 100% rebate for paying property rates, according to monthly household income, subject to the provisions listed below. To qualify for this rebate the head of the family must:
  - (i) Occupy the property as his / her normal residence;
  - (ii) Not be older than 18 years of age;
  - (iii) Still be a scholar or jobless; and
  - (iv) Be in receipt of a total monthly income from all social grant resources not exceeding an amount to be determined annually by the Municipality. For the 2016/2017 financial year starting at 1 July 2016 this amount is determined as two times the social grant ( $R\ 1,500 \times 2 = R\ 3,000$  as per the 2016 budget speech by the Minister of Finance) paid by National Government plus 25% ( $R\ 3,000 + R\ 750 = R\ 3,750$ ) per month. Should the total monthly income exceed this amount, such case must be referred to the Executive Mayor and his / her Mayoral Committee who will have the delegated powers and discretion to deal with the application suitably.
- (b) The family head must apply on the prescribed application form for registration as a child headed household and must be assisted by the

Municipality with completion of the application form. If qualifying, this rebate will automatically apply and no further application is thus required.

### 12.2.3 Retired and disabled persons

- (a) Retired and disabled persons, not registered as indigents, qualify for special rebates according to monthly household income. To qualify for the rebate a property owner must:
  - (i) Occupy the property as his / her normal residence;
  - (ii)** Be at least 60 years of age or in receipt of a disability pension from the South African Social Security Agency;
  - (iii) Be in receipt of a total monthly income from all sources as annually determined by the Municipality (including income of spouses of owner);
  - (iv) Not be the owner of more than one property; and
  - (v) Provided that where the owner is unable to occupy the property due to no fault of his / her own, the spouse or minor children may satisfy the occupancy requirement.
- (b) Property owners must apply on the prescribed application form for a rebate as determined by the Municipality. Applications must be accompanied by:
  - (i) A certified copy of the identity document or any other proof of the owner's age which is acceptable to the Municipality;
  - (ii) Sufficient proof of income of the owner and his / her spouse;
  - (iii) An affidavit from the owner;

- (iv) If the owner is a disabled person proof of a disability pension payable by the state must be supplied; and
  - (v) If the owner has retired at an earlier stage for medical reasons proof thereof must be submitted.
- (c) All applications must be addressed in writing to the Municipality by 31 August for the financial year in respect of which the rate is levied. If the rebate applied for is granted the rebate will apply for the full financial year. For the 2016/2017 financial year the total monthly income and corresponding rebate is determined as follows:
- (i) R 0 to R 3,750 per month - 100% of indigent support;
  - (ii) R 3,751 to R 4,250 per month - 80% of indigent support;
  - (iii) R 4,251 to R 5,000 per month - 50% of indigent support; and
  - (iv) R 5,001 to R 5,750 per month - 20% of indigent support.
- (d) The Municipality retains the right to refuse the rebates if the details supplied in the application form were incomplete, incorrect or false.

#### 12.2.4 Retired persons seventy (70) years and older

- (a) Retired persons seventy years and older, who do not qualify for any other rebates as per the Category of Properties (Paragraph 12.1 of this Policy) or Category of Owners (Paragraph 12.2 of this Policy), qualify for special rebates according to their pensioner and age status. To qualify for the rebate a property owner must:
- (i) Occupy the property as his / her normal residence;

- (ii) Be at least 70 years of age as the breadwinner;
  - (iii) Be in receipt of a monthly pension as the only source of income except that interest on investments will be allowed and must be declared that may not exceed 25% of the pension income; and
  - (iv) Not be the owner of more than one property in Drakenstein.
- (b) Property owners must apply on the prescribed application form for a rebate as determined by the Municipality. Applications must be accompanied by:
- (i) A certified copy of the identity document or any other proof of the owner's age which is acceptable to the Municipality;
  - (ii) Sufficient proof of income of the owner and his / her spouse; and
  - (iii) An affidavit from the owner.
- (c) All applications must be addressed in writing to the Municipality by 31 August for the financial year in respect of which the rate is levied. Any new applications for the 2016/2017 financial year and onwards must be addressed in writing to the municipality by 31 August for the financial year in respect of which the rate is levied. If the rebate applied for is granted the rebate will apply for the full financial year and such application again regarded as a once off requirement. These rebates are over and above the R 160,000 exemption on residential properties referred to in paragraph 10.1(b) of this policy.
- (d) An additional rebate (based on the total property value) of a maximum of 10.0% will be granted by the Municipality for the 2016/2017 financial year.



- (e) The Municipality retains the right to refuse the rebates if the details supplied in the application form were incomplete, incorrect or false.

#### 12.2.5 State-owned properties

The Municipality shall grant a 20% rebate on the property rates levied for state-owned properties.

#### 12.2.6 Amateur sporting organisations

- (a) The Municipality shall grant a rebate of 75% on the property rates levied for sport fields with grass or any other surfaces owned by amateur sporting organisations. This will also be applicable on sport fields located in privately owned towns.
- (b) The Municipality shall grant a rebate of 25% on the property rates levied for the clubhouse, restaurant and other facilities associated with the sporting activities. This will also be applicable to similar facilities associated with sporting activities in privately owned towns.

#### 12.2.7 Professional sporting organisations

- (a) The Municipality may, on application by a professional sporting organisation, grant a rebate on the property rates levied on property owned by professional sporting organisations.
- (b) Such an application must be accompanied with the latest audited set of financial statements and the audit report issued in terms of the South African Accounting Standards.
- (c) For the 2016/2017 financial year a maximum rebate of 10% on property rates levied is determined, subject to Council's approval of the application submitted by the professional sporting organisation.

- 12.3 Properties with a market value below a prescribed valuation level of a value to be determined annually by the Municipality may, instead of a property rate being determined on the market value, be rated a uniform fixed amount per property.
- 12.4 The extent of the rebates granted in terms of paragraphs 12.1 and 12.2 must annually be determined by the Municipality and included in the annual budget.

### **13. PAYMENT OF RATES**

- 13.1 The property rates levied on properties shall be payable:
- (a) On a monthly basis; or
  - (b) Annually, before 15 October each year.
- 13.2 Ratepayers may choose paying rates annually in one instalment on or before 15 October each year. If the owner of property that is subject to property rates, notify the Municipal Manager or his / her nominee in writing by not later than 30 June in any financial year, or such later date in such financial year as may be determined by the Municipality that he / she wishes to pay all rates annually, such owner shall be entitled to pay all properties rates in the subsequent financial year and each subsequent financial year annually until such notice is withdrawn by him / her in a similar manner.
- 13.3 The Municipality shall determine the due dates for payments in monthly instalments and the single annual payment and this date shall appear on the accounts forwarded to the owner / tenant / occupants / agent.
- 13.4 Rates payable on an annual basis will be subject to a discount of 5% if paid in full on or before 15 August of each year. The owner shall apply for such discount.

- 13.5 Interest on arrear property rates, whether payable on or before 15 October or in equal monthly instalments, shall be calculated in accordance with the provisions of the credit control and debt collection policy of the Municipality.
- 13.6 If a property owner who is responsible for the payment of property rates in terms of this policy fails to pay such rates in the prescribed manner, it will be recovered from him / her in accordance with the provisions of the credit control and debt collection by-law of the Municipality.
- 13.7 Arrears rates shall be recovered from tenants, occupiers and agents of the owner, in terms of section 28 and 29 of the Act and the Municipality's credit control and debt collection by-law.
- 13.8 Where the property rates levied on a particular property have been incorrectly determined, whether because of an error or omission on the part of the Municipality or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the property rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected back to the date on which property rates were first levied in terms of the current valuation roll.
- 13.9 In addition, where the error occurred because of false information provided by the property owner or as a result of a contravention of the permitted use of the property concerned, interest on the unpaid portion of the adjusted property rates payable shall be levied at the maximum rate permitted by prevailing legislation.

## **14. ACCOUNTS TO BE FURNISHED**

- 14.1 The Municipality will furnish each person liable for the payment of property rates with a written account, which will specify:

- (a) The amount due for property rates payable;
- (b) The date on or before which the amount is payable;
- (c) How the amount was calculated;
- (d) The market value of the property, and
- (e) Rebates, exemptions, reductions or phasing-in, if applicable.

14.2 A person liable for the payment of property rates must furnish the municipality with an address where correspondence can be directed to.

14.3 A person liable for payment of property rates remains liable for such payment, whether or not such person has received a written account from the municipality. If the person concerned has not received a written account, he / she must make the necessary enquiries with the Municipality.

14.4 In the case of joint ownership the Municipality shall consistently, in order to minimise costs and unnecessary administration, recover rates from one of the joint owners only provided that it takes place with the consent of the owners concerned.

## **15. PHASING IN OF RATES**

15.1 The property rates to be levied on newly rateable property shall be phased in as explicitly provided for in section 21 of the Act.

15.2 The phasing-in discount on the properties referred to in section 21 shall be as follows:-

- (a) First year : 75% of the relevant rate;

(b) Second year : 50% of the relevant rate; and

(c) Third year : 25% of the relevant rate.

15.3 No property rates on newly rateable properties that are owned and used by organisations conducting activities that are beneficial to the public and that are registered in terms of the Income Tax Act for those activities, shall be payable during the first year. The phasing-in discount on these properties shall be as indicated below:

(a) First year : 100% of the relevant rate;

(b) Second year : 75% of the relevant rate;

(c) Third year : 50% of the relevant rate; and

(d) Fourth year : 25% of the relevant rate.

## **16. SPECIAL RATING AREAS**

16.1 The municipality will, whenever deemed necessary, by means of a formal Council resolution determine special rating areas in consultation with the relevant communities as provided for in section 22 of the Act.

16.2 The following matters shall be attended to in consultation with the committee referred to in paragraph 16.3 whenever special rating is being considered:

(a) Proposed boundaries of the special rating area;

(b) Statistical data of the area concerned giving a comprehensive picture of the number of erven with its zoning, services being rendered and detail of services such as capacity, number of vacant erven and services that are not rendered;

- (c) Proposed improvements clearly indicating the estimated costs of each individual improvement;
- (d) Proposed financing of the improvements or projects;
- (e) Priority of projects if more than one;
- (f) Social economic factors of the relevant community;
- (g) Different categories or sub-categories of property;
- (h) The amount of the proposed special rating;
- (i) Details regarding the implementation of the special rating; and
- (j) The additional income that will be generated by means of this special rating.

16.3 A committee consisting of 6 members of the community residing within the area affected will be established to advise and consult the Municipality in regard to the proposed special rating referred to above. This committee will be elected by the inhabitants of the area concerned who are 18 years of age or older. No person under the age of 18 may be elected to serve on the committee. The election of the committee will happen under the guidance of the Municipal Manager. The committee will serve in an advisory capacity only and will have no decisive powers.

16.4 The required consent of the relevant community shall be obtained in writing or by means of a formal voting process under the chairmanship of the Municipal Manager. A majority shall be regarded as 50% plus one of the households affected. Each relevant household within the special rating area, i.e. every receiver of a monthly municipal account, will have 1 vote only.

- 16.5 In determining the special additional rates the Municipality shall differentiate between different categories as referred to in paragraph 6 of this policy.
- 16.6 The additional property rates levied shall be utilised for the purpose of improving or upgrading of the specific area only and not for any other purposes whatsoever.
- 16.7 The Municipality shall establish separate accounting and other record-keeping systems for the identified area and the households concerned shall be kept informed of progress with projects and financial implications on an annual basis.

## **17. FREQUENCY OF VALUATION**

- 17.1 The Municipality shall prepare a new valuation roll at least every 4 (four) years.
- 17.2 In accordance with the Act the Municipality, under exceptional circumstances, may request the MEC for Local Government and Housing in the province to extend the validity of the valuation roll to 5 (five) years.
- 17.3 Supplementary valuations may be done on a continual basis but at least on an annual basis.
- 17.4 In the event that a property has been transferred to a new owner and rates emanating from a supplementary valuation become due and payable, the new owner will be held responsible from the date of registration.

## **18. COMMUNITY PARTICIPATION**

18.1 Before the Municipality adopts the property rates policy, the Municipal Manager will follow the process of community participation as envisaged in chapter 4 of the Municipal Systems Act and comply with the following requirements:

- (a) Council must establish appropriate mechanisms, processes and procedures to enable the local community to participate and will, if needed, provide for consultative sessions with locally recognised community organisations and where appropriate traditional authorities;
- (b) Conspicuously display the draft property rates policy for a period of at least 30 days at the Municipality's head and satellite offices, libraries and on the website;
- (c) Advertise in the media a notice stating that the draft property rates policy has been prepared for submission to Council and that such policy is available at the various municipal offices and on the website for public inspection;
- (d) Property owners and interest persons may obtain a copy of the draft property rates policy from the municipal offices during office hours at a fee as determined by Council as part of its annual tariffs. Property owners and interest persons are invited to submit written comments or representations to the Municipality within the specified period in the notice;
- (e) Council will consider all comments and / or representations received when considering the finalisation of the property rates policy; and
- (f) The municipality will communicate the outcomes of the consultation process in accordance with section 17(2)(e) of the Municipal Systems Act, No 32 of 2000.



## **19. REGISTER OF PROPERTIES**

- 19.1 The Municipality will compile and maintain a register in respect of all properties situated within the jurisdiction of the Municipality. The register will be divided into Part A and Part B.
- 19.2 Part A of the register will consist of the current valuation roll of the municipality and will include all supplementary valuations done from time to time.
- 19.3 Part B of the register will specify which properties on the valuation roll or any supplementary valuation roll are subject to:
- (a) Exemption from rates in terms of section 15 of the Act;
  - (b) Rebate or reduction in terms of section 15 of the Act;
  - (c) Phasing-in of rates in terms of section 21 of the Act; and
  - (d) Exclusions as referred to in section 17 of the Act.
- 19.4 The register will be open for inspection by the public at the municipal main offices during office hours or on the website of the Municipality.
- 19.5 The Municipality will update Part A of the register during the supplementary valuation process.
- 19.6 Part B of the register will be updated on an annual basis as part of the implementation of the municipality's annual budget.

## **20. BY-LAWS TO GIVE EFFECT TO THE PROPERTY RATES POLICY**

- 20.1 The municipality will adopt a Property Rates By-law to give effect to the implementation of the Property Rates Policy and such By-law may differentiate between different categories of properties and different categories of owners of properties liable for the payment of property rates.

## **21. REGULAR REVIEW PROCESSES**

- 21.1 The property rates policy must be reviewed on an annual basis to ensure that it complies with the Municipality's strategic objectives as contained in the Integrated Development Plan and current legislation.

## **22. SHORT TITLE**

- 22.1 This policy is the Property Rates Policy of the Drakenstein Municipality.
-



*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **ASSET MANAGEMENT POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

# Table of contents

<b>PREAMBLE .....</b>	<b>3</b>
<b>1. INTRODUCTION .....</b>	<b>4</b>
<b>2. SCOPE AND APPLICABILITY .....</b>	<b>5</b>
2.1 OPERATIONAL AREAS .....	5
2.2 CATEGORIES OF PHYSICAL ASSETS.....	5
2.3 DM'S STAFF .....	5
<b>3. ABBREVIATIONS AND DEFINITIONS .....</b>	<b>6</b>
3.1 ABBREVIATIONS.....	6
3.2 DEFINITIONS.....	7
<b>4. CONTEXT AND REFERENCES .....</b>	<b>10</b>
4.1 ISO 55000 .....	10
4.2 STATUTORY REQUIREMENTS .....	10
4.3 ORGANISATIONAL GOALS .....	10
<b>5. POLICY STATEMENT .....</b>	<b>12</b>
<b>6. AM POLICY ELEMENTS .....</b>	<b>12</b>
6.1 STRATEGY MANAGEMENT .....	17
6.2 INFORMATION MANAGEMENT .....	17
6.3 TECHNICAL INFORMATION .....	18
6.4 ORGANISATION AND DEVELOPMENT .....	20
6.5 CONTRACTOR MANAGEMENT .....	21
6.6 FINANCIAL MANAGEMENT.....	22
6.7 RISK MANAGEMENT .....	22
6.8 HEALTH, SAFETY, SECURITY AND ENVIRONMENT .....	24
6.9 ASSET CARE PLANS .....	25
6.10 WORK PLANNING AND CONTROL .....	26
6.11 OPERATOR ASSET CARE .....	27
6.12 MATERIAL MANAGEMENT .....	28
6.13 SUPPORT FACILITIES AND TOOLS .....	28
6.14 LIFE CYCLE MANAGEMENT.....	29
6.15 PROJECT AND SHUTDOWN MANAGEMENT .....	30
6.16 PERFORMANCE MEASUREMENT .....	31
6.17 FOCUSED IMPROVEMENT .....	31
<b>7. CONCLUSION .....</b>	<b>32</b>

## 1. Introduction

The Asset Management policy of Drakenstein Municipality (DM), originally compiled and approved in prior years, focused largely on the financial management of assets. In recent years, the understanding of the scope of Asset Management (AM) has developed as described in a number of guidelines published by the South African Government.

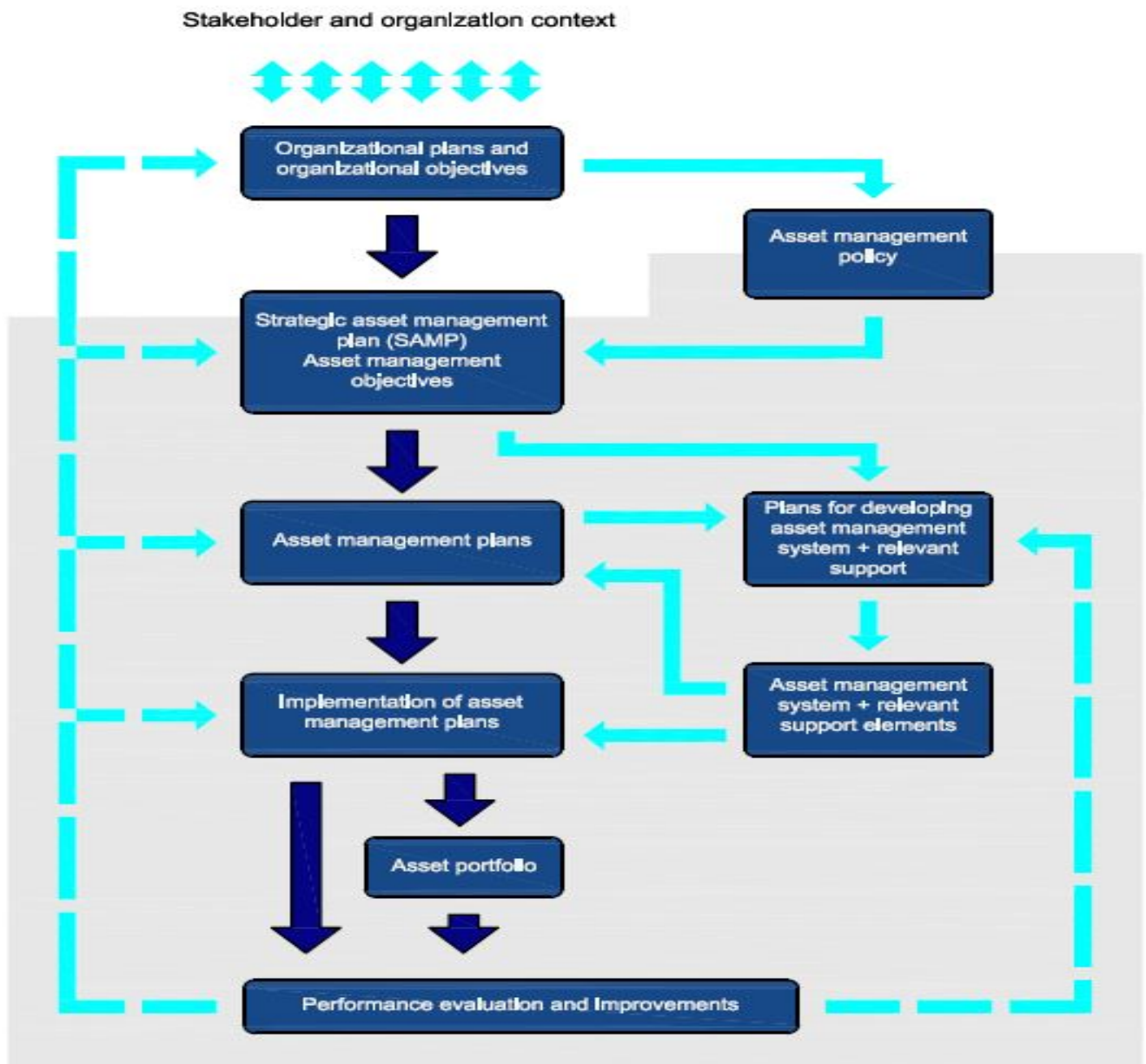
In addition, international guidelines such as the publicly available specification ISO 55000:2014, describe the performance areas that an asset owner such as DM must address, in order to ensure that it covers the full scope of AM.

During November 2015, DM participated in a high-level AM maturity self-assessment facilitated by Aurecon. The methodology used for the assessment was Pragma's AM Improvement Plan (AMIP), which is based upon 17 asset management key performance areas (KPA's), aligned with the ISO 55000 elements as depicted in the table below:

<b>ISO 55000 element</b>	<b>Asset management KPA's</b>
Strategic AM plan, with AM objectives	1. Strategy Management
AM system and relevant support systems	2. Information Management
	3. Technical Information
	4. Organisation and Development
	5. Contractor Management
	6. Financial Management
	7. Risk Management
	8. Environment, Health and Safety
Implementation of AM plans	9. Asset Care Plans
	10. Work Planning and Control
	11. Operator Asset Care
	12. Material Management
	13. Support Facilities and Tools
	14. Life Cycle Management
	15. Project And Shutdown Management
Performance evaluation and improvement	16. Performance Measurement
	17. Focused Improvement

Whilst a number of the required aspects were addressed in the 1 July 2014 DM asset management policy, it is clear that the policy should be expanded to cover the full scope of AM, as captured in this policy. The intent of all of the clauses in the previous AM policy has been incorporated in this policy.

The purpose of the AM policy is to define DM's vision and intent regarding all aspects of asset management. The policy also provides the framework for the development of the asset management strategy, KPIs and master plans. This is illustrated in the graphic below (which is taken from the ISO 55000 series: 2014 Standard for Asset Management).



The AM policy will remain fairly constant over time, since it defines the intent (“What”) for AM. Conversely, the AM strategy and master plans define the long and short term road maps (“How”) for AM. Therefore, these documents should be updated annually to align with DM’s growth in AM maturity.

## **2. Scope and applicability**

### **2.1 Operational Areas**

All DM assets within the municipal area are covered by the policy, including the towns of Paarl, Wellington, Mbekweni, Gouda/Hermon and Saron.

### **2.2 Categories of physical assets**

The AM policy covers the following types of assets:

1. Land
2. Buildings and other community facilities, i.e. parks, recreational facilities, resorts, gardens and cemeteries.
3. Engineering works (Infrastructure assets)
4. Machinery
5. Equipment
6. Vehicles
7. Furniture and equipment

Minor items that are generally regarded as expendable, even though their useful lives may extend beyond one year, e.g. kettles, desktop fans, staplers, letter trays and punches, are excluded.

### **2.3 DM's staff**

The AM policy is applicable to all DM's staff who are involved in AM related activities. It includes the relevant external contractors and suppliers who are also involved in servicing DM's AM requirements.

### 3. Abbreviations and definitions

#### 3.1 Abbreviations

The following abbreviations are used in this document:

<b>Abbreviation</b>	<b>Description</b>
ACP	Asset care plan, or Maintenance Plan
AM	Asset Management
AMIP	AM improvement planning. A business process which includes an assessment of an organisation's AM maturity.
ASB	Accounting Standards Board
BP	Best Practice
CAPEX	Capital expenditure
CBM	Condition-based maintenance
CFO	Chief financial officer
MM	Municipal Manager
DM	Drakenstein Municipality
EAMS	Enterprise AM system
EMT	Executive Management Team
EUL	Estimated useful life
FAMP	Financial Asset Management Policy
GIS	Geographic Information System
GRAP	Generally recognised accounting practices
HSSE	Health, safety, security and environment
IT	Information technology
KPA	Key performance area
KPI	Key performance indicator
MFMA	Municipal Finance Management Act
MRO	Maintenance, repair and operational items
NEMA	National Environmental Management Act
OAC	Operator asset care
OEE	Overall equipment efficiency



Abbreviation	Description
OMM	Optimum maintenance mix
OPEX	Operational expenditure
PMU	Programme Management Unit
PPE	Property, plant & equipment
RCA	Root cause analysis
RUL	Remaining useful life

### 3.2 Definitions

For purposes of this policy, unless otherwise stated, the following definitions shall apply:

Term	Definition
5S	A workplace organisation methodology which uses a list of five Japanese words which are <i>seiri</i> (sort), <i>seiton</i> (shine), <i>seiso</i> (set in order), <i>seiketsu</i> (standardise) and <i>shitsuke</i> (sustain).
Asset Management	The combination of systematic and coordinated management, financial, economic, engineering and other activities and practices applied to assets, through which an organisation optimally manages its assets and their associated performance, risks and expenditures over their life cycle, with the objective of providing the required level of service in the most cost effective manner.
Asset register	A list of all assets owned by DM, categorised as either: <ol style="list-style-type: none"> <li>1. Land</li> <li>2. Buildings, structures and facilities</li> <li>3. Infrastructure Assets</li> <li>4. Other Assets</li> <li>5. Heritage Assets</li> <li>6. Investment Properties</li> <li>7. Intangible assets</li> </ol>
Availability	<ol style="list-style-type: none"> <li>1. The probability that equipment will be able to perform its required function over a period of time, or at a given point in time.</li> <li>2. Availability as a measure is an indication of the percentage of the scheduled operating time it was available to operate (as opposed to standing idle). Availability = operating time / scheduled operating time. Note that some organisations differentiate between engineering availability (considering engineering downtime only) and operational availability (considering only operational downtime).</li> </ol>
Capital expenditure	Funds used to acquire a long-term asset, or to add to the value of an existing asset (i.e. upgrade or refurbish) with a useful life that extends beyond the current taxable year or to replace an asset which economic life time has expired

<b>Term</b>	<b>Definition</b>
Community assets	Any asset that contributes to the community's wellbeing. Examples are parks, libraries and fire stations.
Condition-based maintenance	This covers all inspections and tests (condition monitoring) which are done to verify the condition of equipment in order to predict and prevent failures before they occur.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life. DM uses the straight-line method of depreciation.
Design improvement maintenance	This covers all modifications and projects which are made to equipment to remove a cause of failure.
Fair value	The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Executive Managers	All municipal officials in the different directorates reporting directly to the Municipal Manager.
Heritage assets	Culturally significant resources. Examples are works of art, historical buildings and statues.
Infrastructure assets	Any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
Investment properties	Properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Inventory register	A register that records and maintains all inventory purchases and movements.
ISO 55000: 2014	The British Standards Institution's (BSI) Publicly Available Specification for the optimised management of physical assets.
Life cycle	The time interval between when the need of an asset is first identified until the asset is disposed of.
Life cycle cost (LCC)	The sum of costs incurred by the asset owner over the lifetime of an asset, i.e. from the stage at which the asset is planned to the stage at which the asset is disposed in the life cycle stages.
MRO items	Items kept in an engineering store to support AM activities, including spare parts, fasteners, lubricants, consumables, jigs, fixtures, etc.

<b>Term</b>	<b>Definition</b>
Non-tactical maintenance	Non-tactical maintenance is work that does not originate from RCM or OMM analysis; or that is not part of the asset care plan. Non-tactical maintenance covers activities associated with unexpected equipment failure and potential failures.
Operational expenditure	The on-going costs for running a business or system. This includes the expenses required to maintain the organisation's existing assets.
Other assets	Assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
Property, plant & equipment	Tangible assets that: 1. Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and Are expected to be used during more than one period.
Recoverable amount	The amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
Refurbishment	The act of restoring an asset to its former good condition, thereby resulting in an extension of its useful life.
Recognition of an asset	An asset is recognised when it is probable that the future economic benefits or potential service provision will flow to Council and the asset has a cost or value that can be reliably measured.
Run-to-failure	A maintenance tactic that intentionally allows for the failure of an item, because it is impossible or not cost effective to prevent the failure.
Reliability	The probability that equipment will perform its prescribed function, under stated conditions, for a stated period. Note the distinction from Availability.
Residual value	The net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Tactical maintenance	Tactical maintenance tasks have been developed through some analytical process, such as RCM or OMM as an applicable and cost-effective way to improve equipment reliability. We define four types of tactical work: usage-based maintenance, condition-based maintenance, run-to-failure and design improvement maintenance.
Usage-based maintenance	Is maintenance conducted at regular, scheduled intervals of usage (kilometres, running hours, months, etc), which were established to avoid failure. It can include inspections, services or replacements. It is only effective if there is a certain age-related deterioration (wear-out).

Term	Definition
Useful life (EUL)	Either: 1. The period of time over which an asset is expected to be used by the municipality, or 2. The number of production or similar units expected to be obtained from the asset by the municipality.

## 4. Context and references

The AM policy for DM has been developed with due consideration of statutory requirements, organisational goals and stakeholder requirements.

### 4.1 ISO 55000

The policy is also aligned with the guidelines of the ISO 55000 series: 2014, Asset management.

### 4.2 Statutory requirements

The following statutory laws and regulations are applicable to AM within DM.

Statutory requirement	Reference documents
Governmental arrangements	1. Municipal Structures Act 2. Municipal Systems Act
Health and Safety	3. Occupational Health & Safety Act
Technology and systems	4. The State Information Technology Agency Act
Environment	5. National Environmental Management Act
Labour and industrial relations	6. Labour Relations Act
Accounting/Financial	7. Municipal Finance Management Act 8. GRAP requirements as published by the Accounting Standards Board 9. Broad-based Economic Empowerment Act

### 4.3 Organisational goals

The AM policy will support the achievement of the following DM Strategies, as documented in the DM Integrated Development Plan (IDP) for 2015-2016.

Key Performance Area	Key Focus Areas
<b>Governance and Stakeholder Participation</b> – to promote proper governance and public participation	Governance Structures
	Stakeholder Participation
	Risk Management
	Policies, Strategies, Plans and By Laws
	Monitoring and Evaluation
	Inter-Governmental Relations
	Communications (Internal and External)
<b>Physical Infrastructure and Energy Efficiency</b> – to ensure efficient infrastructure and energy supply that will contribute to the improvement of quality of life for all citizens within Drakenstein	Electricity Infrastructure and Energy Efficiency
	Roads and Storm water Infrastructure
	Water and Sanitation Infrastructure
	Solid Waste Infrastructure
	City Entrances
	Local Amenities and Public Places
<b>Services and Customer Care</b> – to improve our public relations thereby pledging that our customers are serviced with dignity and care	Water and Sanitation
	Electricity
	Cleansing and Waste Management
	Customer Relations
	Public Transport
	Branding and Website
	Building Regulations and Municipal Planning
<b>Economic Growth and Development</b> – to facilitate sustainable economic empowerment for all communities within Drakenstein and enabling a viable and conducive economic environment through the development of related initiatives including job creation and skills development	Growth
	Job Creation
	Investment (Domestic and Foreign)
	Socio-Economic Status
	Urban Renewal
	Skills and Education
	Trade and Industry
	Stability and Sustainability
	Rural Development
<b>Health, Safety and Environment</b> – to contribute to the health and safety of communities in Drakenstein through the pro-active identification, prevention, mitigation and management of health including environmental health, fire and disaster risks	Tourism
	Traffic, Vehicle Licensing and Parking
	Environmental Management
	Disaster Management and Fire Fighting Services
	Municipal Law Enforcement
	Parks, Cemeteries and Open Spaces

Key Performance Area	Key Focus Areas
<b>Social and Community Development</b> – to assist and facilitate with the development and empowerment of the poor and the most vulnerable. These include the elderly, youth and disabled	Sustainable Human Settlements (Housing)
	Sport and Recreation
	Arts, Craft and Culture
	Libraries
	Cemeteries and Crematoria
	Poverty alleviation
	Special Programmes (Gender, Elderly, Youth and Disability)
	Child Care Facilities
	Control of Public Nuisances
<b>Institutional Transformation</b> – to provide an effective and efficient workforce by aligning our institutional arrangements to our overall strategy in order to deliver quality services	Organisational Structure
	Human Capital and Skills Development
	Programme and Project Management
	Performance Management
	Systems and Technology
	Processes and Procedures
	Facilities
	Equipment and Fleet Management
<b>Financial Sustainability</b> – to ensure the financial sustainability of the municipality in order and to adhere to statutory requirements	Revenue enhancement
	Cost containment
	Asset Management
	Capital expenditure
	Supply Chain Management
	Financial Reporting
	Budgeting/Funding

## 5. Policy Statement

Drakenstein Municipality (DM) shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements and in support of its strategic objectives, according to the following core principles –

### 1. Effective Governance

DM shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adhering to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality shall –

- a) Continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- b) Regularly review updates and amendments to the above legislation;

- c) Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- d) Effectively apply legislation for the benefit of the community.

## 2. Sustainable Service Delivery

DM shall strive to provide to its customer services that are technically, environmentally and financially sustainable. To this end, the municipality shall –

- a) Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- b) Identify current and future demand for services, and demand management strategies;
- c) Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew and dispose infrastructure assets, where applicable in line with national targets;
- d) Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- e) Prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- f) Allocate budgets based on long-term financial forecasts that takes cognisance of the full life-cycle needs of existing and future infrastructure assets and risks to achieving the adopted performance targets;
- g) Strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- h) Implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

## 3. Social and Economic Development

DM shall strive to promote social and economic development in its municipal area by means of delivering Municipality services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality shall –

- a) Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- b) Implement changes to services in response to changing customer needs and expectations where appropriate;
- c) Foster the appropriate use of services through the provision of clear and appropriate information;
- d) Ensure services are managed to deliver the agreed levels and standards; and
- e) Create job opportunities and promote skills development in support of the national EPWP.

#### 4. Custodianship

DM shall strive to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality shall –

- a) Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- b) Establish appropriate development control measures including community information;
- c) Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- d) Ensure that heritage resource are identified and protected; and
- e) Ensure that a long-term view is taken into account in infrastructure asset management decisions.

#### 5. Transparency

DM shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality shall –

- a) Develop and maintain a culture of regular consultation with regard to its management of infrastructure in support of service delivery;
- b) Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP); and
- c) Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standard.

#### 6. Cost- effectiveness and efficiency

DM shall strive to manage its infrastructure assets in an efficient and effective manner. To this end, the municipality shall –

- a) Assess life-cycle options for proposed new infrastructure in line with the Supply Chain Policy;
- b) Regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- c) Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- d) Continue to secure and optimally utilise government grants in support of the provision of free basic services;
- e) Implement new and upgrading construction projects to maximise the utilisation of budgeted funds;



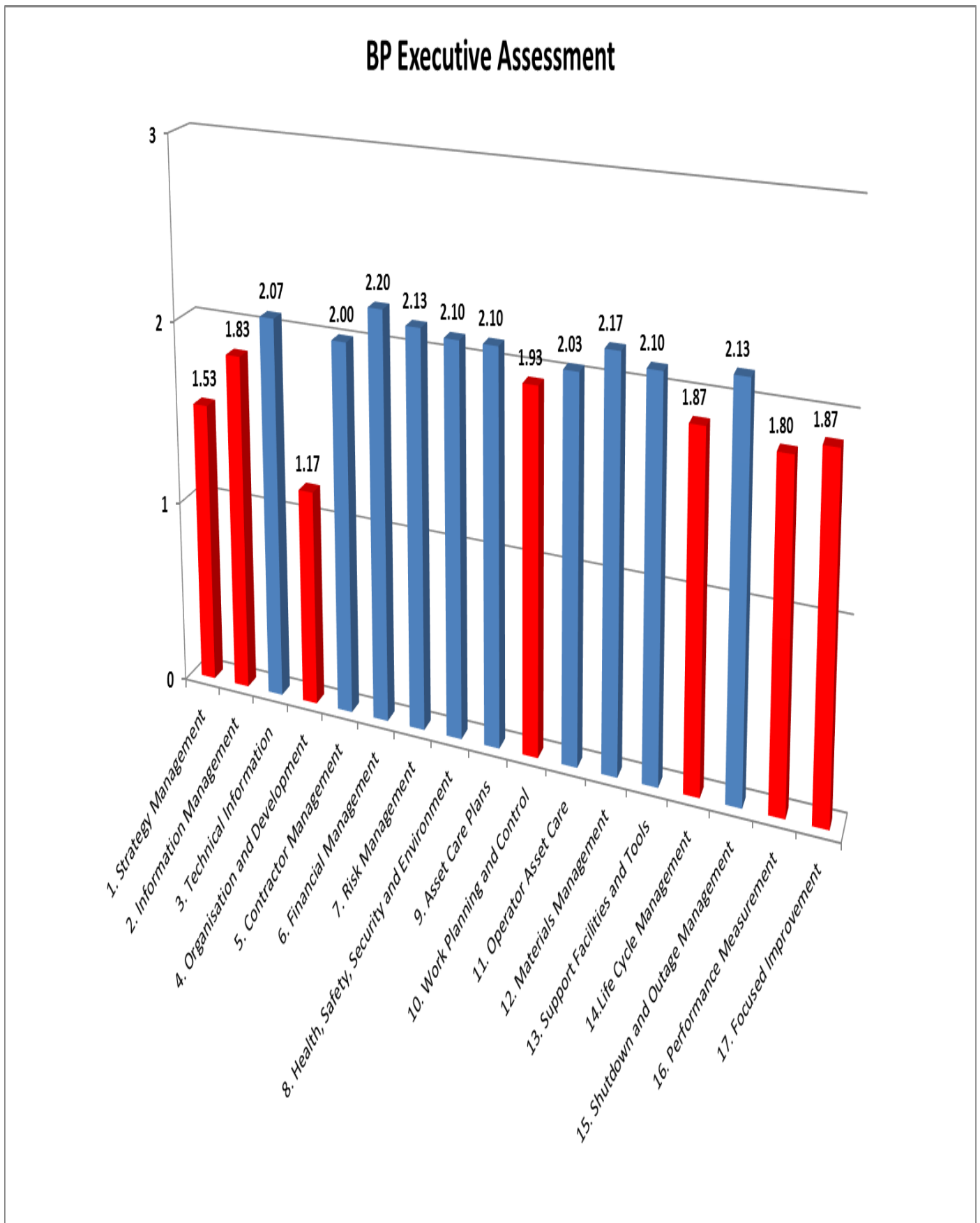
- f) Ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- g) Establish and implement demand management plans;
- h) Timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- i) Timeously dispose of infrastructure assets that are no longer in use;
- j) Review management and delivery capacity, and procure external support as necessary;
- k) Establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- l) Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- m) Conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

## 6. AM policy elements

DM's AM policy is best defined with reference to the 17 KPAs or elements of an AM system as described in the introduction to this AM policy. Based upon DM's AM maturity self-assessment, facilitated by Aurecon during November 2015, a total of 6 priority KPA's were selected by the AM Steering Committee for a more detailed assessment. These are:

- Strategy management – Strategy management will form the foundation for all other improvements.
- Information management – General agreement that this is an area that should be addressed urgently.
- Technical information – Some gaps have emerged in the available technical information, resulting as this being identified as a priority area.
- Organisation and Development – Included because of the importance of people in the asset management function. Ultimately asset management cannot happen without sufficient people.
- Work Planning and control – General agreement that the way the maintenance work is identified and managed should be a focus area.
- Life cycle management – General agreement of the importance of lifecycle asset management in order to minimise lifecycle costs and to be prepared for the replacement of assets at the end of their useful lives.

The maturity levels for all 17 KPA's are shown in the accompanying diagram.



A more comprehensive description for each of the 17 KPA's are included below. Target maturity levels have also been set for the 6 priority KPA's.

## **6.1 Strategy Management (*Priority KPA*)**

The following strategic documents will be developed, updated or refined during DM's strategic AM planning activities:

1. AM policy (statement of intent)
2. AM strategy with long term time scales and focus areas
3. AM Master plans with priority initiatives for each KPA

The AM Steering Committee will oversee the implementation of these plans and the associated performance improvements on a quarterly basis. They will be supported by technical sub-committees, on an operational level, which will meet as required.

The AM strategy and master plans shall be updated on an annual basis in line with the growing maturity as measured by an independent AM maturity assessment.

The AM Steering Committee will ensure implementation of the approved Asset Management Policy.

**Target maturity level: AMIP level 3**

### **Expected benefit**

1. Clear and well communicated policy and strategy documents, with planned and prioritised activities to achieve the short term AM goals for DM.
2. The clearly stated and communicated strategy will support the change management required to obtain the necessary buy-in from stakeholders.
3. Strong support for the AM improvement plan from Executive management will support organisation-wide participation and support.

## **6.2 Information Management (*Priority KPA*)**

DM must utilize appropriate Enterprise Asset Management System (EAMS) software to maintain a register of physical assets, as well as to process and store day-to-day AM transactions.

The EAMS will be required to interface with DM's financial management system for all financial and organisational data processing, as well as with the physical equipment for asset performance data.

The EAMS will also be required to store spatial data of all assets, or to interface with the Geographic Information System (GIS) of DM.

The EAMS will be used to produce the required reports and analyses to facilitate effective decision making.

This EAMS system will ensure that:

1. All required maintenance work is clearly identified.
2. Maintenance work is effectively planned and scheduled.
3. Resource allocation is done effectively.
4. Maintenance history is recorded.
5. Maintenance costs are recorded (labour, materials and travel).
6. Failure information and other related history is kept.
7. Asset performance is monitored.
8. MRO items are purchased and provided as required for maintenance.
9. Information is made available to management for decision making.

**Target maturity level: AMIP level 3**

**Expected benefit**

1. Improved compliance with performing of required maintenance work
2. More accurate and timely AM information for decision making.
3. Increased utilisation of resources
4. Compliance with GRAP requirements

### **6.3 Technical Information (*Priority KPA*)**

A detailed, hierarchically structured register will be compiled and maintained for all physical assets, with their important attributes listed. This register will be synchronised with the financial asset data to ensure alignment and be kept up to date with any movement, addition or removal of physical assets.

All asset-related documents (such as drawings, manuals, catalogues and specifications) will be kept in a safe place with easy access to all. These documents will be in electronic format as far as possible, to allow for digital storage and distribution. All changes to the assets will be reflected in the associated documentation.

The Executive Managers shall approve all asset movements (*Donations to and by the municipality, Additions / Improvements, Loss or damage, Transfers, Write-offs, Land sales, Other disposals*). All assets to be written off and removed from the asset register must be approved by Council or, if the value does not exceed R50 000, by the Municipal Manager after a recommendation by the relevant Executive Manager. Disposal of assets will be done in accordance with the Asset Disposal policy and the SCM policy.

When an asset is transferred interdepartmentally, the Asset Transfer Form must be forwarded to the Executive Manager of the directorate receiving the asset, and to the Manager: Assets and Insurance Management.

When assets are transferred to other government departments or municipalities, a document with specific authorisation should be drawn up to ensure the validity of the transfer. The document should include:

- a) Asset description;
- b) Carrying value of the asset;
- c) Unique asset number;
- d) Effective date of transfer; and
- e) Authorisation by both transferor and transferee.

Each directorate must keep an accurate record of all asset losses and report such losses to the Manager: Assets and Insurance Management in the reporting period when the loss was incurred.

The Manager: Assets and Insurance Management shall:

1. Verify movable assets in possession of the Council annually, as at 30 June of a particular financial year.
2. Produce a detailed report on the assets verification exercise.
3. Prepare an annual report documenting the following asset movements:
  - a) Donations to and by the municipality.
  - b) Additions / Improvements.
  - c) Auctions.
  - d) Loss or damage.
  - e) Transfers.
  - f) Write-offs.
  - g) Land sales.
  - h) Other disposals.
4. Keep a complete and balanced record of all assets in possession of the Council.
5. Ensure that the asset register is balanced at least annually.

### **Target maturity level: AMIP Level 3**

#### **Expected benefit**

1. Effective access to all asset technical information, to support improved labour productivity and more effective maintenance.
2. Correct technical details of all assets recorded and available for annual audit purposes.

### **6.4 Organisation and Development (*Priority KPA*)**

DM's organisational structure shall reflect the following approach regarding AM:

1. Responsibility for AM will be shared among all Directorates.
2. The Asset Management Committee shall convene regularly and take measures to effectively implement this policy and shall report quarterly to the Executive Management Team (EMT) on progress made.
3. The responsibility for asset operation and asset care of infrastructure assets is assigned to the Directorate: Infrastructure (Technical) Services.
4. Each Directorate shall have the responsibility for planning and scheduling of maintenance activities on all assets under their control.
5. The responsibility for technology & equipment is assigned to the Chief Information Officer (IT) in the Directorate: Corporate Services.
6. The responsibility for Capital project management and project specification is assigned to the project managers identified within the relevant Directorate.
7. The responsibility for the Health and Safety part of the HSSE function is assigned to the Health and Safety Officer in the Directorate: Corporate Services.
8. The responsibility for the Environment part of the HSSE function is assigned to the Executive Manager: Planning and Local Economic Development.
9. The responsibility for MRO material management is assigned to the Manager: SCM, in the Financial Services Directorate.
10. The responsibility for maintenance execution for land and buildings (excluding Housing assets) is assigned to the Manager: Property Management in the Directorate: Corporate Services.
11. The responsibility for maintenance execution for Housing assets is assigned to the Senior Manager: Human Settlements in the Directorate: Community Services.

DM's management must develop and/or participate in the development and implementation of systems and processes to ensure that their staff have the necessary skills and competencies for the healthy, safe, environmentally-friendly and cost-effective management of physical assets.

These systems and processes will encompass the following areas:

1. Recruitment, selection, appointment and promotion of staff.
2. Definition of job and skills requirements for the AM tasks and functions, including both technical and other AM competencies
3. Identification of skills gaps and the training plans to close these gaps
4. Recognition and reward that is commensurate with the skills and demonstrated competence levels.

**Target maturity level: AMIP Level 3**

**Expected benefit**

1. An empowered, efficient, competent and stable workforce.

## **6.5 Contractor Management**

Normal maintenance activities will be conducted primarily by internal resources.

The following maintenance and construction work will, however, be contracted out:

1. Specialised services, such as pipe jetting.
2. Special heavy equipment, e.g. cranes, lifting- & earthmoving equipment.
3. In all other cases where it makes economic sense to outsource.

Contractors must be selected based on their competence, price and previous performance record. They will be subjected to all the standard policies and procedures applicable to DM's staff, especially regarding the SCM Policy and HSE policies.

**Expected benefit**

1. Stable workforce, lower costs and utilisation of specialised skills where required.

## 6.6 Financial Management

All authorisation levels for AM expenditure will be defined in accordance with DM's financial policies.

A rolling 20 year capital development plan and 5 year capital budget will be compiled to provide for the replacement of all assets which have reached the end of their useful life, either in terms of technology or cost of ownership, as well as for any new assets required to fulfil the operational requirements of DM and extension of services. This plan and budget will be compiled by relevant Executive Managers with inputs from the CFO and other stakeholders. The capital plan will be informed by the IDP and sector plans such as the water services development plan, roads management plan and others.

All maintenance costs will be captured per work order, against a specific asset and cost centre to facilitate analysis and control.

All assets will be accounted for in accordance with Generally Recognised Accounting Practice (GRAP), as described in DM's **Financial Asset Management Policy** (FAMP). For depreciable assets, straight-line depreciation will apply over the stated standard estimated useful life (EUL) period. The EUL's used will be as described in Appendix A to the FAMP.

The process to be followed when assets are acquired shall be in accordance with the Council's SCM Policy as well as any standard Payment Procedures. This shall apply to all the types of Council's assets.

### **Expected benefit**

1. Compliance with the FAMP, MFMA and GRAP requirements.
2. Improved cost control.
3. Clean annual audits.

## 6.7 Risk Management

DM considers risk management to be a key component for its business continuity and will devote the required effort and resources to ensure that the risks faced by the organisation in the course of its business activities, are appropriately identified, measured, evaluated and managed.

The Municipality applies control and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage. The existence of assets is physically verified from time-to-time, and measures adopted to control their use.



The Chief Risk Officer, in conjunction with DM senior management, is responsible for overall risk management, which consists of the following activities:

1. Identifying and defining asset-related risks which could impact the organisational goals.
2. Documenting the scope, nature and timing in a formal risk register.
3. Specifying how these risks could change; over time or based on asset utilisation.
4. Classifying the severity of these risks in order to define whether they need to be avoided, eliminated or controlled.
5. Defining the probability of these risks occurring.
6. Defining the controls required to address these risks.
7. Providing for the regular monitoring of these controls to ensure that the risks are mitigated.

The CFO (or delegated official) shall ensure that all significant assets are insured in accordance with DM's approved Insurance Management Policy. All insured assets shall be handled in terms of the insurance policy as agreed with the appointed Insurance Brokers.

The responsibility for the physical control of assets rests with the relevant directorate responsible for the specific asset. No asset (including rented assets, such as photocopy machines), may be moved without the prior consent of the respective Executive Manager and notification of the Manager: Assets and Insurance Management.

The CFO must financially substantiate the assets as per Annual Financial Statements and participate in the process of physical control to achieve accurate and reliable asset information with regards to purchases, write-offs, transfers, donations and locations.

The existence, condition and location of these assets shall be verified periodically (annually for movable assets), including a condition assessment to identify indicators of impairment and determine the impact on an asset's remaining useful life.

Asset safeguarding directives and procedures shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets. Day-to-day duties relating to such control, verification and safekeeping may be allocated to asset custodians.

Although certain responsibilities have been allocated to certain levels of management, the ultimate responsibility to ensure control over each asset in terms of the policy remains with Executive Managers.

It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area.

Executive Managers shall –

- a) enforce the application of the procedures for controlling and safeguarding the Municipality's assets, including the movement of assets and confirmation of verified assets during annual verification,
- b) report malicious damage, theft, and break-ins to the Municipal Manager and to the Manager: Assets and Insurance Management (or delegated official) within 48 hours of its occurrence or awareness by the respective Executive Manager, and
- c) report criminal activities to the South African Police Services.

#### **Expected benefit**

1. Reduced and contained asset-related risks.

### **6.8 Health, Safety, Security and Environment**

Good health, safety and environmental practices are non-negotiable elements of the way DM operates. As a result, HSE compliance and HSE improvement will always receive top priority above any operational needs. The aim is to have a well-entrenched HSE culture in all areas and on all sites.

DM shall ensure that all applicable legal and other external obligations or requirements are identified and incorporated into the corresponding elements of the AM system.

An HSE programme will be established to ensure that the work area is safe and healthy, and that damage to the environment is prevented as far as possible. An emergency response process and incident investigations will ensure the consequences of any incident is minimised and a recurrence prevented.

Asset requirements will be clearly displayed in all areas requiring assets and all staff will be issued with the required furniture, tools and equipment necessary for the execution of their duties.

Communication and outreach programmes will regularly be held to communicate the risks that DM's assets pose to neighbouring communities.

DM will aim to reduce its energy usage and associated carbon footprint.

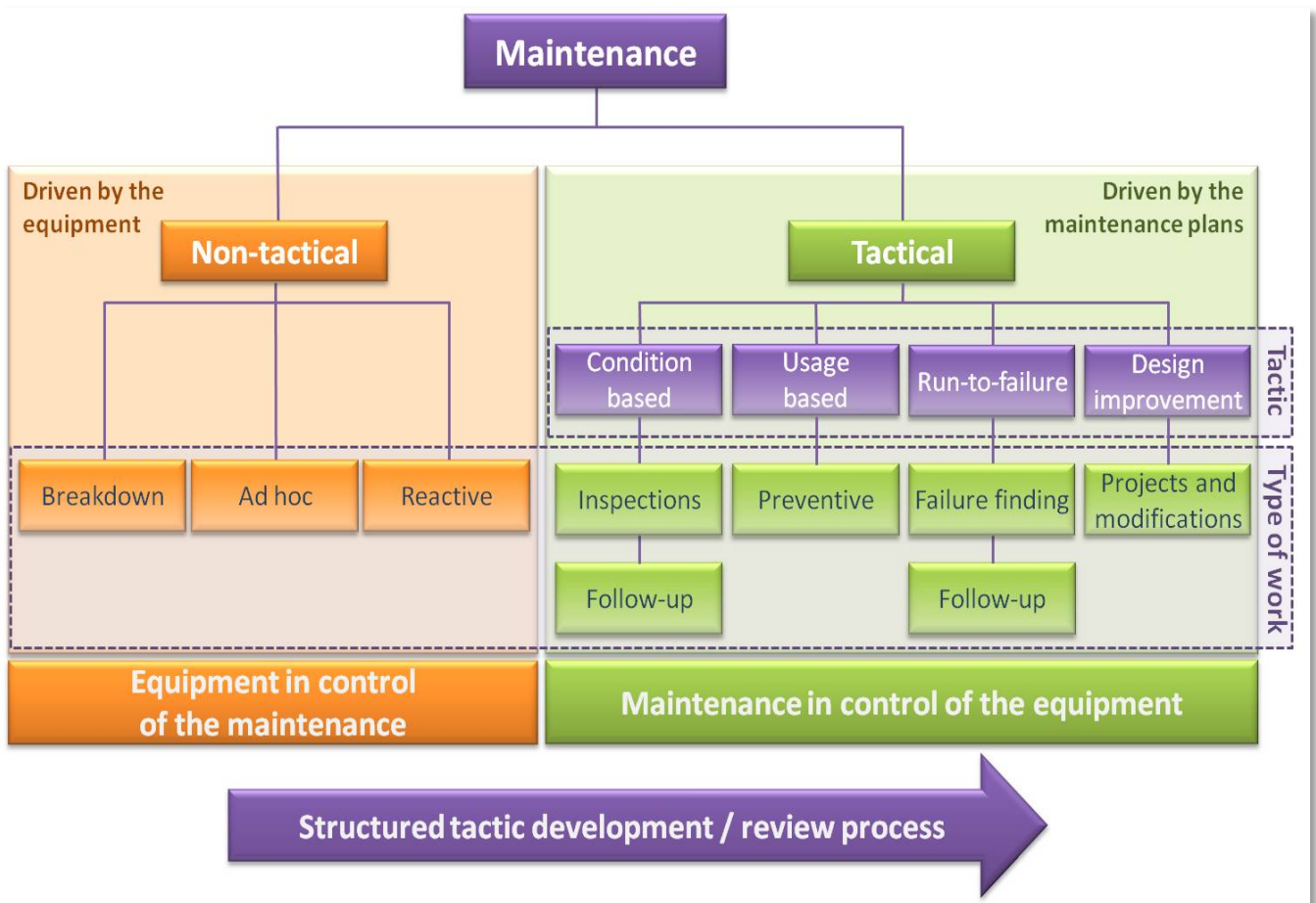
#### **Expected benefit**

1. Compliance with HSE legislation
2. A safe and healthy working environment for employees, contractors and the wider community.

### 3. Reduced environmental impact.

## 6.9 Asset Care Plans

The on-going focus will be on moving from non-tactical (generally reactive) to tactical (generally pro-active) maintenance, which will be achieved by defining and implementing the optimum maintenance mix for each equipment type per location. The maintenance mix will comprise of a combination of the maintenance tactics indicated below:



Executive Managers shall prepare, and review at least every 3 years, Operation and Maintenance Policies and Plans, and submit such, through the AMC, to EMT for adoption. The municipality shall engage contractors when necessary to support in the implementation of maintenance actions and adopt a system that assists in managing such maintenance.

Maintenance policies applicable in the different directorates or departments, as well as any operation and maintenance strategies and plans will be reviewed and refined periodically to improve asset performance and reduce maintenance costs.

### Expected benefit

1. Improved asset reliability and availability at an optimum maintenance cost.

## 6.10 Work Planning and Control (*Priority KPA*)

DM will utilise the EAMS system for all maintenance work planning and control activities. This will be done according to the formal business processes to be developed.

1. All normal (non-emergency) breakdown work will be identified on the EAMS.
2. All tactical work to be performed will be initiated by means of a work order generated in the EAMS by the central Maintenance Planning office.
3. All work to be performed by a contractor will be initiated by means of a work order generated in the EAMS by the centralised Maintenance Planning Office.
4. The centralised Maintenance Planning Office will plan all resource requirements (e.g. spare parts, special tools, permits) and arrange for its availability.
5. Maintenance work will be scheduled by the centralised Maintenance Planning Office in accordance with the operational plans and in collaboration with the LM Area managers.
6. All work performed, materials and labour used shall be recorded directly in the EAMS by the LM area and/or central maintenance clerks via the established user interface.
7. Root cause analysis (RCA) shall be done for all call-outs and breakdowns which exceed two hours.
8. Over inspections shall be carried out by maintenance foremen/supervisors on work done on critical assets.
9. A procedure will be implemented to manage all rotatable items, such as motors, pumps, gear boxes, etcetera, to ensure that their history is tracked and their warranties applied.
10. The EAMS will be used to control all outstanding work, as well as to analyse maintenance history and excessive maintenance costs.

**Target maturity level: AMIP Level 3**

### **Expected benefit**

1. Control over all maintenance activities.
2. Faster response times.
3. Better utilisation of resources and improved standard of maintenance work.
4. Elimination of underlying causes of repetitive breakdowns.

## 6.11 Operator Asset Care

Due to the wide geographic area covered by DM's assets, Operator Asset Care (OAC) will be a key strategy in the asset care programme, and all key operational staff will take partial responsibility for equipment care by:

1. Operating the equipment in the correct manner and keeping it clean.
2. Inspecting the equipment regularly to detect equipment problems before they result in a major breakdown.
3. Assisting the maintenance/engineering personnel in maintaining the equipment by doing minor repairs, lubrication and providing assistance during major repairs.

The following step-by-step process will be followed to enable the operating personnel to perform these tasks:

1. Document simple user-friendly standard operating procedures, and display these in operational areas as appropriate.
2. Train operating personnel in the principles of operator asset care.
3. Train operating personnel in the functioning of the equipment and the correct operating procedures.
4. Issuing operating personnel with the required tools and equipment to perform the required basic asset care tasks.
5. Involve the operating personnel in cleaning and tagging the equipment in order to return it to an "as good as new" condition.
6. Introduce regular cleaning and inspection tasks for operational staff, making ample use of visual management systems.
7. Introduce operator-based lubrication, where applicable.
8. Train operational staff to do minor repairs and fault-finding to support engineering staff during major repairs.

### **Expected benefits**

1. Reduced maintenance costs and higher equipment reliability.

## 6.12 Material Management

Formal material management systems and processes will be implemented to ensure proper control and optimisation of the investment in MRO inventory. It will also provide an excellent service to the projects and maintenance teams to ensure availability of material when required. The material management will apply the following principles:

1. Implement an integrated EAMS system to ensure maximum data velocity, visibility, reporting capability and avoid data duplication.
2. Maintain an up to date and accurate material master database of both stock and non-stock items, with all the required information to support decision making and replenishment.
3. Purchase material from reputable suppliers who adhere to the required quality standards and can provide a fast and efficient service.
4. Manage the MRO stores in such a manner as to ensure accurate inventory levels, protection of items, clean and tidy facilities, and a fast and efficient service to maintenance.
5. Manage rotables in such a way as to make maximum use of refurbished items.
6. Continuously optimise the inventory by reviewing stock levels, considering consignment stock, reducing delivery lead times, standardising, and removing redundant or slow moving items.

An annual stock take will be conducted and Executive Managers shall follow up any discrepancies in the asset stock take report.

### **Expected benefit**

1. An accurate material master database.
2. Availability of MRO items required for maintenance, repairs and operation.
3. Optimisation of the working capital tied up in MRO inventory.

## 6.13 Support Facilities and Tools

Maintenance staff will have access to the required workshop facilities, lubrication facilities, condition monitoring, hand- and special tools, as well as support vehicles to perform their work effectively. They will ensure that these tools and facilities are kept in a clean and organised manner by applying 5S principles.

### **Expected benefit**

1. Higher productivity and efficiency of maintenance staff.
2. More reliable and improved quality services according to operational requirements.

## 6.14 Life Cycle Management (*Priority KPA*)

DM will develop a framework to determine the replacement of physical assets, based upon a combination of the following parameters:

1. The depreciated book value of the asset and its remaining useful life (RUL)
2. The physical condition of the asset.
3. Maintenance costs and breakdown history.
4. Technical obsolescence.
5. Asset standardisation policies.

The AM Steering Committee (including sub-committees), the relevant Directorate and the Financial Services Directorate will therefore be responsible for the following activities:

1. Establish and maintain the whole life cost database.
2. Generate alternative comparisons in order to make recommendations, especially where new technology plays a major role.
3. Calculate the book value of all assets using an appropriate depreciation model.
4. Do physical assessments of all assets from time to time, using criteria applicable to each asset type.
5. Make recommendations in conjunction with the line managers at the various areas regarding the long-term replacement plan and the verification of replacement decisions. This will perform the function of automatically auditing the capital budget process.
6. Prepare detailed specifications and cost justifications for the acquisition of new equipment.
7. Manage the acquisition of new equipment, including supplier visits, progress reviews, acceptance tests and preparing for delivery.
8. Manage the installation and commissioning of new equipment to ensure a “vertical start-up” with equipment performing at the required standard within the specified time.
9. Manage the decommissioning of old equipment in a manner to ensure maximum financial benefit, minimal operational disruption and minimal environmental damage.
10. Include life-cycle cost estimates in the design process for all new projects.

Executive Managers shall develop, and update at least every 3 years, Asset Management Plans (AMPs) for each service involving immovable assets that shall assess level and standards of service, future demand, risk determine a life-cycle plan for a minimum 10 years planning horizon, and identify management practice improvement needs. The AMPs will be submitted through the

AMC to EMT for adoption. AMPs shall be used to inform the preparation of a Capital Development Plan and budgets through the IDP process.

**Target maturity level: AMIP Level 2**

**Expected benefits**

1. Increased asset productivity and reduced costs.
2. Reduced vertical start-up for new equipment.

## **6.15 Project and Shutdown Management**

Maintenance Capital projects (such as the installation of new equipment or the upgrade of information systems) will be managed in a professional manner according to accepted project management principles. Such projects will have a:

1. Clear scope definition in terms of a statement of work.
2. Detailed project plan, based on a work breakdown structure to show resource loading and the critical path.
3. A thorough risk assessment and mitigation plan.
4. Regular progress reviews and communication.
5. A proper project handover.
6. A post-project review to document lessons learned.

**Expected benefit**

1. Successful capital projects and shutdowns, completed on time, within budget and at the required quality standards.



## 6.16 Performance Measurement

Strategic AM KPIs and targets will be developed and deployed throughout the organisation to the relevant stakeholders and teams. This will ensure a clear “line of sight” between lower level KPIs and the organisational goals.

Performance against these KPIs will be measured. The responsible teams will meet regularly, review their performance and discuss ways of improving it.

### **Expected benefit**

1. Increased accountability and ownership of performance at all levels of the organisation.

## 6.17 Focused Improvement

From time to time the AM Steering Committee will determine focus areas for all improvement efforts, for example improved asset performance or reduced AM costs. These focus areas will be communicated to everyone involved in AM in terms of specific improvement targets.

These improvement targets will be achieved by implementing specific improvement projects, as well as doing daily structured problem solving on major problem areas. A structured problem-solving approach will be implemented, to ensure that these improvements are done in a sustainable way.

The problem solving process will be based on the following principles:

1. Major or chronic problems are identified as potential projects.
  - a. Project selection criteria are based on the AM Strategy and potential benefits.
  - b. The project team is selected based on the nature of the problem.
  - c. The project team is held accountable for the results.

### **Expected benefit**

1. Increased equipment reliability and reduced costs

## 7. Conclusion

This AM policy describes the desired end state for AM at DM, and will contribute significantly to achieving the organisations strategic objectives and community's expectations.

The document has been developed by DM management in line with the municipality's goals and is therefore of strategic importance. It forms the baseline for all major asset-related decisions and improvement activities.

The next steps are to:

1. Perform a more detailed assessment of the 6 priority KPA's selected by the AM Steering Committee (focus areas to be addressed first).
2. Develop an asset strategy by identifying improvement projects based upon the gap between the current and target maturities, and which will enable the achievement of the target maturities.
3. Combine these projects in an overall Asset Management Improvement Plan (AMIP), which will spell out how to achieve the target maturities over the next 12-18 month period, along with timelines and responsibilities.
4. Implement the AMIP.
5. Monitor performance against targets by the AM Steering Committee on a quarterly basis, to ensure that the AMIP is successfully implemented.
6. Report on progress to the EMT.